

REMARKS OF SENATOR ROBERT MORGAN
THE NATIONAL CONVENTION OF THE
US LEAGUE OF SAVINGS ASSOCIATIONS
SAN FRANCISCO, CALIFORNIA
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I would like to discuss today some of the events that have occurred this year -- issues that I know are of immediate concern to you -- and then go on to discuss some of my more general, philosophical views on the housing problems that we in this country face, and what I believe should be the role of savings and loan associations in solving those problems.

We have just concluded, except for final action on the energy conference report, the 1st Session of the 95th Congress. It has been a very demanding year, both physically and intellectually.

I have certainly not agreed with all the decisions that have been made this year either by the President or by the Congress. But I do think you have to concur that an unusually large number of very important issues have been addressed -- energy matters, tax matters, Social Security financing,

hospital costs, housing, the alleged scandal and corruption of what's
come to be known as "Koreagate", the Middle East, Arms Control, and a
number of other really crucial issues have been discussed and debated.

On some issues decisions and directions have been established. On others
at least, the parameters of the controversy have been outlined, and we are
in a position to act next year.

This has been a year under new leadership, both in the Congress and in
the Executive Branch. We have had a new Speaker of the House, a new Majority
Leader in the House of Representatives, new Majority and Minority Leaders
in the Senate and of course, most importantly, a new President and new faces
in the Cabinet and throughout the Executive Branch. It has been a year of
groping and struggling toward a more effective and more productive relationship
between the Congress and the President. I think there have been some steps
forward and perhaps some steps back. I really think that Arthur Burns, the

distinguished chairman of the Federal Reserve, about whom a good deal of controversy is once again whirling, summed it up pretty well in a speech he made in October also out here on the Pacific coast, up in Spokane, Washington. He said that the "practicality of so many initiatives in this Administration's first year is arguable, but the President's leadership also bespeaks a seriousness of purpose that in the end may bring lasting benefits to our nation. We have been through a year of animated policy debates -- a year, of useful growth in the perception of how plausible divergent objectives can be practically blended. The basic reform this country needs is the creation of an environment with many new job opportunities for people. I expect the dust of controversy to settle and that constructive legislation will follow." I share the thrust of what Chairman Burns had to say. The President has not been shy or timid in addressing some of the most complex, serious problems this country faces. They are not problems with easy answers. They are not problems on which

everyone is going to agree, but we have begun a very serious, hard-headed national debate and I think that is an important contribution of a new President's first year in office.

A number of those animated policy debates to which Chairman Burns referred have very directly and intimately affected savings and loan associations and I would like to turn my attention to several of those now.

REGULATION Q:

I know that your prime legislative objective over this past year has been the continuation of Regulation Q. I certainly share your concern that the differential contained in Regulation Q be continued.

As you know, Regulation Q was something of a hostage, buried within a

bill containing other, more controversial provisions, such as "NOW" accounts.

In the final days of the Session, the Congress did pass legislation continuing Regulation Q until December, 1978. And it is my guess that we will not take up this issue again until probably about the middle of next year.

COMMUNITY REINVESTMENT ACT -- HOME MORTGAGE DISCLOSURE ACT

I know, too, that you have a great deal of interest in the Community Reinvestment Act of 1977 and what the Congress did on that matter. Back in May, the Senate Banking Committee, as you recall, reported out the Housing Omnibus Bill with amendments which included the Community Reinvestment Act. Unfortunately, I was in the hospital when the original vote was taken, but after I got back to the Senate, I moved to reconsider what I thought

was a very unnecessary and burdensome bill. We were defeated in Committee on a tie vote; I then took my effort to the Senate floor where I moved to strike Title V of the Housing Omnibus Bill. I felt that the intent of insuring greater credit availability to inner cities was good. Of course, we in the Congress never intend to do anything bad. But I felt quite strongly, and I think most of you would agree, that the bill as proposed required a tremendous amount of paperwork for our already overburdened financial institutions. I also felt that it would have had an adverse affect by causing a reduction in the credit availability in those areas which we are trying so desperately to revitalize. We lost in our effort on the floor to delete the entire title, but we were able to influence for the better the course of the legislation and the form in which it finally emerged from conference. Senators Proxmire and Brooke, the Chairman and Ranking Minority member, respectively, of the Banking Committee, agreed to a one year delay

in the effective date of the provisions, and the Conference Committee

agreed to drop a phrase which I thought was particularly ill-advised.

That provision had to do with the concept of the "primary savings deposit area." Originally the bill contained some very stringent provisions mandating very specific credit actions within that area. As a result of our efforts, the Conference did agree to a change which simply required financial institutions to serve the credit needs of their communities, including those of minority citizens. I think that is a far more realistic and workable way in which to approach this very difficult problem.

I know, too, that the Home Mortgage Disclosure Act has also been of tremendous importance and concern to all of you. I am afraid that this is another piece of legislation which, to my mind, is unnecessary and unwise, and perhaps even detrimental to the real intent it was envisioned to serve.

I recently read an article from the September edition of the "Savings and Loan News" on mortgage review boards. The substance of the article was that where mortgage review boards have gone into operation, they are finding that they have very little business. In general, the article says that review requests to Mortgage Opportunity Boards have been few and far between. I think the important lesson from this is that once again, we have turned towards creation of a new piece of governmental machinery to solve a problem which can be settled far more effectively in other ways.

All of us realize it is hard for people, in inner cities and in rural areas, to qualify for mortgages. I do not feel we should try to ignore the problems where they do exist. But the approach we take must be responsible. I am very encouraged by voluntary programs lending institutions have started in several cities. When the government does play a role, I believe it should be a creative and supportive one, and not punitive. Government

programs which help solve the problem by other means are preferable to

those which increase regulation, or make unreasonable demands on lenders.

NOW ACCOUNTS

Yet another issue that I know concerns us all, is the proposal to make NOW accounts a nationwide proposition. S. 2055, the Consumer Financial Services Act of 1977, is pending on the Senate calendar. Title I is the NOW account title and both, Senators McIntyre and Brooke, appear determined to press ahead with the battle for NOW accounts nationwide next year. They are, of course, both New Englanders and point to the New England experience as indicative of the need for NOW accounts throughout the country, contending that they would also be of benefit to the consumer in other parts of the country. I disagree with that, and I have offered, along with Senator Lugar of Indiana, an amendment to strike NOW accounts from that bill. I anticipate that when we get down to the wire, we will have a pretty spirited clash on

this issue. We need your help if we are going to win it. We need input

from you at the local level in terms of convincing other members of Congress.

You have been very forthcoming with that help and I am sure that will

continue.

I was interested in an article in the Wall Street Journal of October 11, 1977 which was headed "NOW Checking Accounts **L**osing Appeal as Banks Attach Charges and Other Strings." The thrust of the article was that the New England experiment is really losing its lustre in many consumers' eyes. That is because banks which have been losing money on them all along are starting to tack on service charges and minimum balance requirements which pare away the benefits to depositors. The article went on to quote the senior Vice President of a bank in Boston as saying "its like everything else, we have learned that there is no such thing as a free lunch". For a while, indeed, it seem^d to some depositors that the free lunch had arrived. But the

pendulum is swinging back, and in my opinion it is confirmation of what

^{have}
I felt for a long time. NOW accounts would eventually work to the detriment
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of the small consumer, -- the widow who maintains a checking account

just to run her Social Security check through, or the man who keeps a couple

of hundred dollars in his checking account and writes 20 or 30 checks a

month. With NOW accounts, he would have to pay a checking fee to the banks,

and taxes to the government on the interest his account makes. I just don't

think that in the long run NOW accounts make good sense - either for financial

institutions or for the consumer. I think they begin to break down what I

see as a very helpful and legitimate distinction between commercial banks

and savings and loan establishments. Moreover, there is more evidence of

their unprofitability. Banking News Digest of October 1977 pointed out

that the Federal Reserve System's first functional costs analysis of NOW

accounts shows them unprofitable for the small banks who offered them in New

England, and barely profitable for larger banks. This analysis covered 45 banks all under the jurisdiction of the Federal Reserve Bank of Boston. The unprofitability of these accounts for smaller banks was attributed by the Fed mostly to higher overhead. Again, it is growing statistical evidence of what has been my feeling -- that this is simply not the proper way to go.

HOUSING AND COMMUNITY DEVELOPMENT ACT

The most positive thing the Congress did in the field of housing this Session was enactment of the "Housing and Community Development Act of 1977." That important piece of legislation was hung up for a long time in Conference but was finally agreed to and signed into law by the President. HUD is now actively moving to explain it to people around the country, and to implement the new provisions of it. To my mind that act contained a good number of positive steps. Certainly in the field of rural housing, which

it did so
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is important to me as Senator from North Carolina, and as Chairman of the Rural Housing Subcommittee. The Housing and Community Development Act of 1977 took some significant steps. The law directs the Secretary of Agriculture to establish a research capacity within the Farmers Home Administration, and we certainly intend to press very hard to insure that that capacity does indeed become a reality. I think that one of the most shocking things that has emerged is how little information we really have on the problems of rural housing. As a result, decisions affecting the lives of thousands of rural citizens are often made without adequate information, which thus undermines Farmers Home own credibility, and its ability to plan systematically and to examine carefully rural housing and community development needs. The Act extends Farmers Home rural housing programs through September of next year, and increases the authorization for both low income rehabilitation loan grant programs and the financial assistance program for low rent housing

for farm labor. It also takes steps to improve the situation for the rural elderly who are hit so hard by substandard housing, and for handicapped people in rural areas who have been so neglected. These are just a few of the aspects of rural housing that I found encouraging in that bill and there are some equally encouraging signs in dealing with urban housing.

I know that the U.S. League has been instrumental in working with Farmers Home in developing a workable and effective guaranty program and I know that your suggestions have been extremely helpful in terms of the problems of urban housing as well.

Obviously rural housing is one of my primary personal and political concerns. But I fully recognize that the vast majority of our citizens live in urban and suburban areas.

The health of our economy and our society is directly related to the

health of those areas.

I have been impressed with the League's involvement in urban housing problems. The document published in October by the Urban Affairs Executive Committee of the League is an excellent example of bringing your expertise to bear on the public policy process.

"New Approaches to Urban Housing" contains a number of excellent recommendations -- both general and specific to help remedy urban housing problems.

I would like to see all of these recommendations receive very careful attention both in Congress and in the executive branch. I, for one, will do all I can to see that that happens.

I have become increasingly concerned about the growing numbers of people --

in particular young people -- in both urban and rural areas -- who are unable, through no fault of their own, to purchase their own home. Skyrocketing housing costs, coupled with the inflation of the last several years, are pushing the American dream of home ownership further and further out of the reach of increasing numbers of people. Those hardest hit are young people, young couples, who have never owned a home, and are attempting to start their careers and start their families. I believe we need to do more to make home ownership a possibility for these kinds of people of moderate means.

I believe that important social benefits accrue when as many people as possible are able to own their own home. The achievement of home ownership encourages people to become productive, contributing citizens. These habits of stability, responsibility, and sound financial planning based on hard work pay important social dividends to our country long after any initial financial obligation has been satisfied.

I have therefore proposed a bill I call "The Home Ownership Program Act," and am honored that my friend and colleague, Hubert Humphrey, has joined me in co-sponsoring this bill. Few people have done so much for this country as this inspiring and spirited man.

The purpose of our bill is to help make home ownership a reality for a broader segment of our citizenry who cannot presently achieve the goal of owning their own home, and also to stimulate the economy by causing the home construction industry and related trades and industry to become more active through an accelerated home building program.

The program I am proposing would be an experimental one. It would use an existing agency, the Farmer's Home Administration, to conduct a pilot program in a number of counties or states to be selected by the Secretary of Agriculture. The Secretary would designate financial institutions,

such as Savings and Loans, credit unions, or other mortgage lenders

to participate in the program. Credit would be extended to those participating financial institutions at a rate of 4 percent yearly to enable them to make mortgage loans under this provision to low and moderate income families residing in their service area. Participating institutions would be allowed to make these loans at a rate of 6 percent. Those couples or families eligible to participate are those whose incomes are between 80 and 120 percent of the median income for the area, and who are seeking assistance to finance their first home purchase. I believe that helping young couples get over the seemingly insurmountable hurdle of first home ownership will have important social ramifications.

I believe this bill can be an important point for further discussion as the Rural Housing Subcommittee looks forward to the second session of the 95th Congress.

The Rural Housing Subcommittee held 3 days of hearings in October

which I believe were helpful and productive. The primary focus of the hearings was Senator Humphrey's bill proposing an expanded subsidy program for low-income rural people.

A disturbing picture of rural housing needs was presented.

Rural areas

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Rural areas have twice as much substandard housing per capita as urban areas of the United States. The newest studies show one out of every ten houses in non-metropolitan areas to be substandard.

Of the third of our nation's population living in rural areas, one out of every four people drink contaminated water. Five-and-one-half million rural people live in housing without running water. In 1970 a dozen states had over a hundred thousand households without adequate plumbing. An additional dozen states -- from all over the country -- had over 40 thousand rural households without adequate plumbing. 45 percent of the occupants of housing without plumbing are people past 60 years of age.

A 1969 survey conducted by the National Rural Electric Cooperative Association revealed that of the 5 million families on the lines of the rural electric system, 1.7 million families lived in substandard

housing in 46 states. The lack of decent rural housing is indeed not merely a problem of any one region. It is a problem of America. And it is one to which America must respond.

I grew up and continue to make my home in Lillington, North Carolina, a town of only 1250 people in Harnett County in the eastern part of our state. I know firsthand what the quality of rural life can be. There is a richness to it which goes beyond mere material possessions. I believe the way of life in rural America is and can continue to be a source of strength and stability to our nation. Sociological studies here and abroad have documented the lack of "community" and "neighborhood" which characterize the way millions of people in cities and suburbs view the way they live. With a breakdown in the concept of community comes an equally documented rise in alienation and a sense of the meaninglessness of life. I believe that breakdown of

community manifests itself time and time again in the rising incidence of crime, divorce, child-abuse, mental illness, and perhaps untold other ways.

Rural life, in dramatic contrast, is not characterized by alienation. Rural Americans do have strong roots and do share a firm sense of community and of belonging. Rural areas throughout our country constitute a tremendous national resource.

Yet each year more and more Americans are forced by economic necessity to abandon farms and small towns for the larger cities and metropolitan areas. For many, that migration to cities is one of sheer desperation. It represents a chance to better oneself, to get ahead, and to share in the bounty of the American dream.

Yet for many, and all too frequently for blacks and other minorities, the cities' allure proves false. Often with limited skills

and education, they swell the ranks of the urban unemployed, to become economic statistics, alone in a strange and hostile environment.

Too few city dwellers, I believe, fully comprehend the degree to which the problems of our cities are inextricably linked with the problems of rural America. The broad challenge confronting our society is to remove the need for migration from countryside to city. We must improve the quality of life in rural areas so that our young people will want to stay there, as a place where one can lead an even better life.

The most crucial aspect of that challenge is to confront the economic causes at the root of this problem and to make the opportunity for decent housing available to all rural Americans. Surely, few factors more intimately affect our physical and emotional health than the quality of the surroundings in which we live. Dilapidated housing

means debilitated lives. It means youngsters who will not have the opportunity to develop to their fullest potential. And it means old people denied the comfort and dignity that is their due. Improved housing for the rural poor must be a clear governmental priority.

CONCLUSION

Your involvement in housing is deeply encouraging. You are some of the people closest to the problem. You are the people to whom we in the Congress should listen.

If we are to solve the deep seated economic problems which confront us, we must be willing to explore bold and creative new approaches to public policy. The dogmas of traditional liberalism and conservatism have both become stagnant and sterile. Neither big government nor laissez-faire private enterprise can adequately bring us a productive and equitable society. In tackling our economic woes --

including those of the least advantaged -- we must continuously seek ways to harness the vigor and capacity for change of the private sector in a pragmatic and progressive partnership with government.