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THE SAVINGS & LOAN BUSINESS IN A TIME OF CHANGE

The past decade has seen enormous change for financial institutions in general and for the savings and loan industry in particular. No doubt the 1980s will be a time of even greater change both for our economy and for our financial institutions.

As we adapt to changing economic conditions and a dramatically different regulatory environment, I think we need to keep some basic principles in mind.

First, we need to remember that we became a nation of homeowners primarily through our system of community-based and community-owned savings and loan associations. We did not become a nation of homeowners through a variety of government programs, but through the system of private finance that has served us well. I believe that savings and loans are still the most effective tool we have for carrying out our nation's housing policy. They remain the primary vehicle for maintaining an adequate flow of credit for home ownership.

Second, I believe that the 1980s should be a time to renew and strengthen our basic commitment to the notion that Americans are going to remain a nation of homeowners. There is no doubt in my mind that our high level of homeownership has been one of the basic pillars of our social stability. Pride in homeownership inevitably leads people to take a more direct role in the affairs of their community. It gives them a direct stake in their community.

Yet, the sad fact is that this traditional "American Dream" of homeownership is in jeopardy. The average American can no longer afford the average American home. Skyrocketing costs and soaring interest rates have pushed more and more people out of the housing market. Unfortunately, those hardest hit are our young people, those attempting to start their families and purchase their first home.

This situation comes at a time when we are told that some 42 million people will turn 30 years of age between now and 1989, something that is unprecedented for our society, and something that will put ever greater pressures on our housing supply. In short, the post-war "baby boom" has grown up. And unless we want to face even more difficult problems in the future as we face a "senior citizens boom," I believe we need to do what is necessary to insure that the overwhelming number of this generation of young adults are able to achieve and enjoy the benefits of homeownership.

As with the parents of this new generation of young adults, I hope the savings and loan industry will be there to supply the necessary mortgage credit through a system of private finance. Government, however, must also do its part.

As a member of the Senate Committee on Banking, Housing and Urban Affairs, a member of its Housing Subcommittee, and Chairman of its Rural Housing Subcommittee, I'd like to examine our present housing situation and discuss some of the things that we in Congress are attempting to achieve. I would then like to discuss some of the other items confronting the savings and loan industry: the changed situation created by H.R. 4986, the present earnings squeeze, the Administration's withholding proposal, and the continuing burden of federal regulatory requirements.

Most analysts are still gloomy over the near term prospects for the housing industry. Annual starts have been falling steadily for a year now. The annual rate hit 1.0 million units in April, down almost 50 percent below the production levels of 1977 and 1978. Building permits, however, showed some increase. And with mortgage interest rates falling sharply, some forecasters are beginning to say that activity may not go as low as previously forecast. I'm hopeful that unemployment in housing and construction will not climb too much higher than the 15 percent registered last month. While short term forecasts are gloomy, I hope that the pressing need for housing, which I just mentioned, will lead us quickly out of this slump.

I have viewed the entire long trend toward what I have called the "homogenization" of financial institutions with a great deal of alarm and concern. That process, of course, has culminated with the enactment of H. R. 4986, the so-called "Depository Institutions Deregulation Act." To begin with, I am skeptical that very much "deregulation" is likely to flow from this act. Rather, what I fear is that all financial institutions are going to end up more or less alike, all offering the same services, and that the small, community-based savings and loan is going to go the way of the corner drugstore or the family-owned grocery store. Even some of those who favored the bill shared my concern. Senator Cranston of California, who is chairman of the Financial Institutions Subcommittee, said when he introduced the bill: "There's strength in diversity. If all financial institutions become identical in their powers and all the things they can do, a strong few will soon dominate the entire industry. Community-based home-owned institutions will vanish from the scene."

So I spent hours on the Senate floor late last year leading what was at times a lonely effort to moderate and improve a bill that I believed could have had disastrous consequences for the savings and loan industry if enacted in the form in which it was reported by the Senate Banking Committee. I believe we achieved some significant results.

We achieved a number of modifications and additions, which I think made this bill much more palatable for the savings and loans. Now, I believe we in Congress must exercise careful oversight over the the implementation of this act.

For example, I believe it is clear that Regulation Q will continue to be needed as we move through a difficult transition from a controlled environment to a market-rate environment. We must not act precipitiously in removing the kinds of protections needed to ensure the viability of the savings and loan industry in what will likely be a painful time for many institutions.

Very simply, as the head of the U.S. League of Savings Associations has said, Regulation Q "was intended to preserve the savings and loan associations and the savings banks and thus our home-financing system from being destroyed by a much larger and very competitive commercial banking system."

I think it is all the more important that we move carefully in this "period of adjustment," since many savings and loans, due to market conditions, are caught in an almost unprecedented earnings squeeze.

The blunt fact is that the savings and loan industry is facing its worst crisis in the entire post-war period. You are probably aware that new savings dropped drastically in the first months of 1980. I hope that the economy will pick up quickly and that we will see an improvement during the rest of the year.

Congress and the Administration must be ready to work with the savings and loan industry to insure the continued viability of the industry. We must look very carefully at the whole question of tax-treatment of earnings and at tax incentives to promote savings.

Throughout the year, I have felt that we should offer a tax incentive for savings rather than forcing institutions to pay market rates on all deposits. I was an original cosponsor with Senator Bentsen of Texas of the proposal which has now become law as part of the Windfill Profits bill--a scaled down form from our original proposal--which exempts the first $200 in interest or dividends ($400 for a joint return) from taxation.

I am deeply pleased that this did become law this year. It is not as big a step as I would have liked, but it is a step--and a significant one--in the right direction. We now have a situation where economic forces are pushing people to spend rather than save, and we have to change that. The latest figures that I saw show that Americans save only 4 percent of after-tax income, the lowest rate in decades. That compares with 25 percent for the Japanese and 18 percent for the Germans. If we are to return our economy to a healthy rate of growth and increase "real" wages and incomes, then we simply have to reverse the trend toward undersaving and overspending.

In light of our present savings situation, I believe the Administration's proposal to withhold taxes on interest and dividends is a serious mistake. I intend to oppose it very strongly, as I did in 1976. It's no better now than it was then.

This is not a time to take any action which might have the effect of discouraging savings. Moreover, it is clear that the increased costs to the thrift industry simply cannot be justified.

Finally, I want to say a word about the continuing burden of federally-imposed paperwork necessary to comply with a host of laws. That burden falls hardest, of course, on the smaller institutions. I have heard many people from large banks and savings simply express their amazement at how small institutions can possibly cope with the host of regulations and legal changes inflicted by the federal government.

We did take a step in the right direction in H.R. 4986 by enacting some simplification of the Truth-in-Lending Act, but we have a long way to go. I read that during the past decade the volume of paperwork for a savings and loan in processing a mortgage application increased by 78 percent. Most recently this issue was before us in the form of the debate over the Home Mortgage Disclosure Act.

The 1980 Housing Act (S. 2719) contains a reauthorization and revision of the Home Mortgage Disclosure Act. As you may know, there were reservations by some Committee members to the proposals for extending the Act. There was considerable debate and a certain amount of give and take. In the end, the Committee voted, sometimes in very close contests, to make the Act permanent, to require a joint study to assess the feasibility of developing a central depository for data in each SMSA, to require that the Federal Financial Institutions Examination Council compile aggregate data by census tract for each SMSA for all depository institutions covered by the Act or exempted under State charter. The Council would also be required to develop information about aggregate lending patterns for groups of census tracts grouped according to age of housing, income level, and racial characteristics.

The Council would also be required to assess the feasibility of requiring lenders who make small business loans to disclose similar information. In addition, the Secretary of Housing and Urban Development must make available comparative data for mortgages not subject to the Act.

Finally, in order to avoid requiring duplication of reporting by lenders, the Federal Council is to study the feasibility of establishing a unified system for enforcing fair lending laws and regulations, implementing the Community Reinvestment Act and satisfying the purposes of the Home Mortgage Disclosure Act. Needless to say, I was not entirely in favor of what the Committee finally approved.

Thus, we find ourselves in a period of transition. The new laws will have to work themselves out, and we will have to try to live with them and make them work. Meanwhile, this problem will be more difficult because we are now in a recession that drives the housing industry down and threatens the savings and loans business.

There has been one historical factor that we should take into consideration, however. We have witnessed economic cycles throughout our history, and with every recession there is a recovery. Sure, we do have problems--grave problems. Our forefathers also had problems, but had they thrown up their hands and surrendered our country would have faltered. What we need today, and what I find precious little of as I do my duties in the Senate, is courage. I remember the words of Franklin D. Roosevelt, who took office in the midst of one of our worst economic trials in 1933. Although the problems that he faced seemed overwhelming, Roosevelt did not shrink from them. "Compared with the perils which our forefathers conquered because they believed and were not afraid," he said, "we have still much to be thankful for." People should realize, he stressed, "that the only thing we have to fear is fear itself." He wanted to turn the retreat into an advance. The American tradition is one of courage. Let us reach back to that heritage as we begin the 1980s.