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INTRODUCTION:

CHALLENGE OF THE 80's

Our nation's capital is now sweltering in the hazy, humid heat that characterizes August in Washington.

But for public officials, the heat is on in a way that goes far beyond steamy sidewalks and 78-degree offices.

The President and the Congress are in the throes of grappling with some of the most difficult and complex problems ever to face our nation.

As America stands poised on the eve of a new decade, we confront serious structural political and economic difficulties for which there are no easy answers.

Yet answers must indeed be found. Answers for double-digit inflation, and stubborn federal deficits, for a slowdown in economic growth, for lagging productivity, for capital shortages, for a serious trade

imbalance, for a weak dollar, and for energy shortages, which threaten the American way of life as never before in peacetime.

These and other problems confront us as we enter the 1980's. As the events of this summer have underscored, this is a time of great uncertainty for Americans -- a time of deep and serious questioning.

As the theme of this session indicates, what is ultimately at stake is our very survival.

The 1980's must be a time in which America tackles fundamental problems -- a time of putting our

shoulders to the wheel -- a time to renew our
commitment to democratic values, and to search
together for equitable and effective solutions.

This is certainly not a time for panic or for
precipitous action. It is a time for hard-headed
analysis of our strengths as well as our weaknesses,
a time for careful consideration of what should be
preserved as well as what should be changed.

With this perspective in mind, I would like to
discuss some of the key questions which are before
the Congress at this time, especially those in which

I, as a member of the Senate Banking Committee, am most directly involved.

FINANCIAL REFORM LEGISLATION

The most far-reaching bill of direct and immediate importance to the savings and loan industry is, of course, the financial reform package embodied in S. 1347, introduced by Senator Proxmire and Senator Cranston, and endorsed in large measure by the Administration.

In brief, this bill, the "Depository Institutions De-Regulation Act of 1979", would:

1. Continue Regulation Q to 1990, while
ratcheting Regulation Q ceilings upward
beginning in 1982;
2. Authorize nationwide NOW accounts, and
share drafts for credit unions;
3. Authorize consumer loans, corporate bonds,
commercial paper and bankers' acceptance
investments to an aggregate of 10% of
assets for federal savings and loans;
4. Give broader trust powers to S & L's; and

5. Override state usury restrictions for real
estate loans.

Both the President and the proponents of S. 1347 believe that this structure will allow an orderly transition period for deposit interest rates to rise to market-rate levels, while insuring that thrift institutions continue their traditional role in meeting our nation's housing needs.

In hearings before our Subcommittee on Financial Institutions, I have expressed serious doubts about moving ahead with this package at this time.

As Norm Strunk, Executive Vice President of the U.S. League, pointed out before our Subcommittee, "We cannot forget that America has become a nation of homeowners to a degree virtually unparelled throughout the world."

I believe that is true in large measure because of the existence of the savings and loan industry as specialists in home finance, who share the goal of keeping America a nation of homeowners.

Yet, I also believe this basic strength of our country -- widespread homeownership -- is in jeopardy.

PRICE PRESSURES

It is in jeopardy because of the growing number of Americans who are being priced out of the market.

The average-priced American home of around \$50,000 -- substantially higher in parts of the country -- is simply out of reach for the average American.

This is happening at the very time that demographic trends show that the population reaching the homebuying age of 30 will total 43 million in the 1980's -- up 11 million over the 1970's. This will guarantee growing housing demand and ever-upward price pressure.

HOMOGENIZATION

But homeownership is also in jeopardy, I fear, because of an accelerating trend toward homogenization of financial institutions. I believe that trend would be substantially enhanced by passage of S. 1347.

When Norm Strunk of the League was before our Subcommittee, he was asked, "What do S & L's need to live without Regulation Q?"

He answered by saying: "I tell you frankly that what is truly needed in the way of new asset and liability authority to enable thrift institutions to

compete head-to-head with the banks in an unregulated savings market is, frankly, the same powers commercial banks now have, or possibly the power to make the Canadian-type renewable mortgage loans. We would hope, however, that no one in our government is seriously advocating an end to thrift institutions and conversions of S & L associations to commercial banks."

Well, whether advocating it or not, that is precisely what I fear will be the inevitable end result of the path S. 1347 proposes.

When Secretary of the Treasury Blumenthal was before our Subcommittee, I asked him just what distinctions would separate savings and loans from commercial banks if the provisions of S. 1347 were implemented.

He answered: "The distinction is narrowing in any case. Certainly it will narrow."

The Secretary went on to say that he believed important distinctions would still exist with regard to the type of clientele served by banks and S & L's. He argued that savings and loan associations would

still be dealing with the small saver in a different, more specialized business, offering a range of services much more oriented toward them than a large bank.

But when I asked again what distinctions would still apply as far as functions and powers are concerned, Secretary Blumenthal could only reply: "The distinctions would certainly be narrowed. They will be much closer together."

I am convinced that the 10% of assets allowed under S. 1347 for consumer loans and other investment outlets will simply be a foot in the door.

We will inevitably face the necessity to raise that limit in future years.

I often find myself in disagreement with organized labor, but on this point the AFL-CIO presented persuasive testimony before the Financial Institutions Subcommittee. Let me share with you what the director of their Department of Urban Affairs had to say:

"With the proposed new investment powers, savings and loan associations would compete more effectively for savings by paying higher interest rates, as long

as they could place the funds in the markets which provide higher returns than can be obtained from residential mortgages, as they have done within permitted limits. Their future investment pattern would follow that of the mutual savings banks, also originally founded with the purpose of meeting local home-financing needs. In 1965, they had 69% of their assets in residential mortgages. However, they have had other investment powers, and their ratio of residential mortgages to total assets declined to 63% in 1970 and under 50% in 1977 and 1978, but 17% of total assets consisted of corporate bonds and stocks

at the close of 1978 and another 4.5% was in "other loans" which includes Federal funds, open market paper and consumer loans.

"Experience strongly indicates that expansion of Federal savings and loan investment powers would channel billions of dollars of savings and loan association funds into non-housing investment, supporting a higher interest rate structure than would otherwise prevail. The impact would be particularly harsh in depressing housing further in tight money situations."

This trend toward homogenization of financial institutions, with what I see as the inevitable negative impact on the availability of financing for housing, concerns me deeply.

I know you may not necessarily agree with my fears about expanding S & L asset powers, but I know that you do certainly share my concern for housing, and that you share my concern over some of the other serious economic problems we face. I would like to discuss a few more of those with you.

INFLATION: CAUSES AND PROSPECTS

Obviously, our persistent and stubborn inflation is both at the base of, and further exacerbates, our present economic difficulties.

The roots of our present inflation run deep. Sown by our failure to pay for the Vietnam war and nurtured by inadequate policies for years, inflation has embedded itself in the fabric of our economy. Large federal deficits, excessive government regulation, declining productivity, legislated cost increases have all contributed to growing inflation.

And now, as Alfred Kahn told a congressional committee recently, what small progress we have made in stabilizing or in slowing the inflation rate in some sectors, has been vitiated by the impact of rising energy costs.

Like a virus immune to a certain anti-biotic, inflation, because of the energy link, is now even immune to recession.

As G. William Miller has pointed out, during the 1973-75 recession, prices continued to rise nearly 11%. And as Walter Hoadley, chief economist of the

Bank of America, told the Senate Budget Committee in mid-July, "the recession presently foreseen per se cannot be expected to dampen basic inflation or inflationary expectations very much."

Moreover, he says, there is reason to fear a new burst of inflationary pressure as we approach the first anniversary in October of the Administration's voluntary-guideline policy, and increased speculation as to what strong election-year pressures will do to economic policy.

INFLATION: REMEDY

I believe, with Treasury Secretary-designate Miller, that "there will be no single cure, no swift victory", in what must be a long and sustained war against inflation.

I do believe we must stick to our guns in attempting to balance the federal budget. Whether true or not, there is widespread currency to the notion that inflation is primarily government-caused and that the days of a balanced budget are gone forever. We must prove that notion wrong.

Beyond that we must do all we can to encourage investment and saving, and to remove government impediments which eat into the efficiency and sap the vitality of our nation's private sector.

CAPITAL FORMATION

I know you share a concern with other business people about capital formation. Economists have predicted that by 1985, traditional savings deposits will account for only one-third to one-half of the funds S & L's accumulate, and that S & L's will become increasingly like mortgage bankers as the slack

is made up in secondary market operations and from tapping the money and capital markets.

The issue of capital adequacy for S & L's is one which will have to receive careful attention. In what was, I believe, his final appearance before the Senate Banking Committee as chairman of the Federal Home Loan Bank Board, Robert McKinney reported that a task force of the Bank is presently studying various aspects of the capital-adequacy problem.

I am also a member of the Senate Select Committee on Small Business, chaired by Senator Gaylord Nelson

of Wisconsin. The issue of capital adequacy and generating new capital is one of the most important we face in that Committee. Later in the month, one of my staff people will be attending a symposium on venture capital.

It seems to me that one of the aspects of the American spirit which has really helped build America is the spirit of creative risk-taking. That is really what venture capital is all about -- the willingness to invest in the future by taking calculated and creative risks. It is indeed that spirit which is being eroded.

ROLE OF REGULATION

I believe we have to examine carefully the ways in which government regulation has eroded the profitability of the private sector by government-mandated, cost-increasing paperwork. Financial institutions in general, and the savings and loan industry in particular, are among the most heavily-regulated industries in the country.

A host of laws govern your activities. The Community Reinvestment Act, the Home Owners Mortgage Disclosure Act, the Real Estate Settlement

Procedures Act, the Equal Credit Opportunity Act, and the Truth-in-Lending Act, among others, have all added to the cost and difficulty of doing business.

The fact is that there have been those in government, in Congress, and in the federal regulators, who have basically viewed financial institutions as quasi-public utilities, rather than profit-motivated private enterprises.

THE LEGISLATIVE VETO

One solution which has been examined to make the regulatory process more accountable is the

legislative veto. I believe this remedy must be applied highly selectively.

Congress cannot -- and should not -- attempt to inject itself into the writing of all federal regulations. But clearly, there are areas in which Congress should be able to exercise some judgment as to whether executive department regulations are consistent with Congressional intent.

Last year the Congress enacted a modified form of review of regulations of the Department of Housing and Urban Affairs.

And I have joined in an effort to secure a Congressional veto over proposed regulations of the Federal Trade Commission. Few, if any, agencies of the government exercise such broad powers over such far-ranging aspects of the U.S. economy as the FTC. And I believe some Congressional check on the FTC's regulatory authority would be a healthy and productive step.

OUR ENERGY PROBLEMS

Finally, I want to touch upon the energy difficulties our country faces. It is evident that our

immediate economic well-being, and indeed our entire future, is tightly bound up with policy questions relating to energy production and energy use.

THE PRESIDENT'S PLAN

President Carter has proposed an \$88 billion Energy Security Corporation, as the cornerstone of his energy plan. The primary objective of the Energy Security Corporation would be the rapid, large-scale development of a synthetic fuels industry.

I must tell you quite frankly, that substantial opposition to the President's proposal has been

expressed in the Senate Banking Committee, which has jurisdiction over key financing aspects of the plan.

Senator Adlai Stevenson, who also serves on the Committee, has proposed a less costly "Energy Bank", modeled after the Export-Import Bank, which would fund all types of energy production and conservation via low-cost loans and loan guarantees.

NO SINGLE OR SIMPLE ANSWER

But as with the battle against inflation, there will be no quick or easy solution to our energy problems. There is no single answer. But there can

be many different partial answers which contribute to
an overall solution.

We must be willing to explore a variety of promising and new technologies, and new sources of energy, while keeping a couple basic points firmly in mind.

John Gibbons, Director of the Office of Technology Assessment, a non-partisan, bureau established by the Congress to provide cold facts and objective analysis, told the Senate Banking Committee last week:

"The problem we are confronting is urgent and dangerous, but it is not so urgent or dangerous that we are forced to act in desperation."

He cautioned the Committee to keep in mind that for the mid-term, the next five to ten years or so, the United States has one main option for reducing energy imports, and that is to improve the efficiency with which energy is used. "No other energy option," he said, "can have such an impact during this time."

This basic point has been strongly substantiated by the recent report of the highly respected Harvard

Business School, entitled Energy Future.

The editors of that report and others who contributed to it over the past seven years appeared before our Committee. They stressed their firm belief that in the near-term, conservation -- or what should really be thought of as energy efficiency -- can do more than anything else to help our country deal with its energy problem.

"If the United States were to make a serious commitment to conservation," they say, "we might well consume 30 to 40% less energy than we do now, and

still enjoy the same or an even higher standard of living."

That magnitude of energy saving, they contend, would not hinge on a major technological breakthrough, and it would require only modest adjustments in the way people live.

A SOLAR ENERGY BANK

I believe that one way to conserve energy and to create jobs and promote the economy, is to expand, dramatically the use of solar energy in residential and commercial buildings.

The technology for solar energy exists now.

Solar energy for home heating and cooling is a here-and-now alternative to imported oil.

What we have to do is knock down the variety of economic and institutional barriers which have retarded the development of solar energy as an active competitor with conventional energy sources.

I have joined with Congressman Steve Neal of my own state of North Carolina in calling for the creation of a national Solar Bank. I'm deeply pleased that President Carter strongly supports this idea,

and has included it within his overall energy plan.

DESCRIPTION OF THE SOLAR BANK

The Bank would be incorporated within the
Department of Housing and Urban Development, carrying
out its loan function through the Government National
Mortgage Association, otherwise known as "Ginnie Mae".

It would have a seven-member Bank Board consisting of
the Secretaries of HUD, Treasury and DoE. Four
members would be from the private sector. Loans
would be obtained in such the same fashion as
conventional home-improvement loans, or as a

subsidized portion of new home loans. The contractor or homeowner, for example, would apply for the loan at a participating lending institution. The primary precondition for granting the loan, aside from standard operating procedures of the particular lender, would be that the solar system to be purchased be certified by the Department of Energy, and that it have a minimum consumer warranty. Upon granting the loan, the lender would be compensated by the Solar Bank for the difference between the subsidized interest rate and the market rate. Essentially, that would be the extent of the federal government's involvement. This

is an important facet of the program, for it means that the Solar Bank has a built-in sunset provision, enabling the Bank to be terminated at any time without further governmental liability.

The program would be applicable to both retrofit and new construction. Loans would be limited to \$10,000 for single-family dwellings and \$5,000 per unit for multifamily housing. A commercial loan would be limited to \$200,000. The projected funding level for the first year would be \$100 million, or about two-tenths of one percent of our yearly imported oil bill.

If solar energy is to become widely and effectively used, homebuilders, and those who specialize in home finance must help take the lead. Our Committee heard from one small savings association in Maine which is already offering a reduction of one-half of one percent below the current mortgage rate if the property is solar and/or energy efficient within strict guidelines drawn up by their appraiser in conjunction with engineering and architectural guidelines. Approximately 60% of their \$1.2 million in construction loans are now in the process of qualifying for this reduction.

I would like to see the U.S. League of Savings Associations become a leader in the area of solar energy, by investigating and initiating new ways in which the use of solar energy and energy efficiency can be promoted.

CONCLUSION

I believe that government and private business can work together cooperatively and effectively to solve this nation's problems. And I believe that despite the magnitude and the severity of our present problems, the last two decades of this century can be a time of

renewed hope, renewed commitment, and renewed
progress toward a bright and productive future for
America.