The original documents are located in Box 9, folder “Financial Institutions Act - S. 1267” of the Loen and Leppert Files at the Gerald R. Ford Presidential Library.

EMBARGOED FOR RELEASE
UNTIL 12:00 p.m. E.D.T.
WEDNESDAY, MARCH 19, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

I announced a number of initiatives last October to speed the Nation's return to economic health. Part of that important effort is a careful review of Government regulations. Some of these are outdated and have outlived their usefulness. They now impose a greater cost on the American consumer than they provide in benefits. A key element of my program of reform concerns our financial institutions.

The United States depends on a unique system of private financial institutions and markets to serve its citizens and promote sound economic growth. Compared to other Nations, we have a large number of different financial institutions -- such as commercial banks, savings and loan associations, mutual savings banks, and credit unions. Through the years, our Government has tended through regulation and legislation to restrict the activities of each class to specialized functions.

However, the regulation of our financial institutions has not been fully responsive to either the changing needs of our economy or to the changes in the scope and function of our financial institutions. During the past nine years, the cyclical movement of interest rates has imposed major strains on the institutions that serve savers and finance housing. Initial attempts to deal with this problem took the form of interest rate ceilings on the rates that financial institutions could pay to their depositors. The experience of the past several years shows that such ceilings penalize the small saver, and reduce the volume of savings available to finance homebuilding. Nor have the efforts by Government to provide subsidies to support more housing construction succeeded very well. In fact, these programs requiring the Government to borrow in the capital markets have contributed to the problem by adding to upward pressure on interest rates.

At the peak of our financial crisis last summer, home mortgages were virtually unavailable in many parts of the country. And small savers were being heavily penalized because Government rules limited the interest rates they carried on their savings deposits to far less than the rates carried by wealthier individuals with deposits of $100,000 or more. At the same time the availability of much higher rates of interest on their investments outside of the savings institutions caused individuals to shift their funds out of mortgage-lending institutions. As a result, savers, mortgage borrowers, and the housing industry have all been penalized by these obsolete regulations.

Five years ago, a Presidential commission undertook the study of the problems experienced by financial institutions. In 1973, the conclusions of this study led to the introduction of the Financial Institutions Act. The Act encourages greater

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competition and responsiveness to the changing needs of depositors and borrowers. Last year, I endorsed that legislation and urged that the Congress give it priority. Extensive hearings were held in the Senate. Representatives of financial institutions and the concerned public have expressed their views.

Today, I am resubmitting the Financial Institutions Act, with the assurance that the many months of debate and consideration have brought all of us nearer to basic agreement on this important reform.

This bill contains certain notable changes from the legislation put before you in 1973. But the overall objectives remain the same -- providing new opportunities for savers to earn a competitive return on their investment, and providing homebuyers with greater assurance that the flow of funds for home mortgages will not be dramatically disrupted during periods of high interest rates. To achieve these objectives, the bill permits institutions engaged in serving small depositors more flexibility both in obtaining and investing funds. It will permit the payment of higher interest rates to small savers, and it will also offer a new tax incentive to most financial institutions to make residential mortgage loans.

New safeguards will require banks to conform to basic standards of Truth-in-Savings to insure that competition between institutions is fairly and accurately advertised. Nor will there be any decrease in the Government's regulation of accounting or security measures. Increased competition between financial institutions will not be allowed to obscure the need for prudent management necessary to safeguard depositors.

If the Congress will enact this bill into law, our financial institutions will benefit from the ability to offer new services and enter new markets; and their customers, both depositors and borrowers, will share these benefits.

Savings and loan associations and mutual savings banks will be permitted to offer checking and negotiable orders of withdrawal (N.O.W.) accounts to individuals and businesses, while diversifying a portion of their investments into consumer loans, unsecured construction loans, commercial paper, and certain high-grade private debt securities.

Commercial banks will be permitted to offer corporate savings accounts and N.O.W. accounts. Credit unions will be permitted to offer mortgage loans to members, make a wider range of loans at more varied interest rates, and to set up an emergency loan fund on which to fall back.

To improve the availability of mortgage credit, commercial banks, savings and loan associations, mutual savings banks, and other taxable financial institutions will be granted a new tax incentive to enlarge their volume of mortgage loans. Finally, the act provides for the gradual elimination of interest rate ceilings on all types of savings over a five-and-one-half-year period.

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This legislation differs in two principal ways from the bill previously submitted to the Congress:

First, the abolition of interest rate ceilings on deposits will still occur five-and-one-half years after the passage of the act. However, prior to the removal of ceilings, the Administration will conduct an intensive investigation to examine the economic and financial picture at that time. The President and the Congress will then have the opportunity, if appropriate, to make any final improvements in the direction of the legislation.

Second, the mortgage tax credit is included in the act as before, but savings and loan associations and mutual savings banks will be given a one-time option until 1979 to decide when to substitute this tax measure for their current bad debt loss deduction. By 1979, all savings institutions will be required to shift to the mortgage interest tax credit.

While the amended bill contains modifications designed to emphasize the areas of agreement produced during the hearings and recent discussions between Administration officials and the public, the basic objectives are to increase the level and quality of service for the consumer saver, and to maintain or expand the flow of credit to the housing sector.

I urge the Congress to give these proposals prompt and favorable consideration.

GERALD R. FORD

THE WHITE HOUSE,
March 19, 1975

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EMBARGOED FOR RELEASE
UNTIL 12:00 NOON, EDT

March 19, 1975

Office of the White House Press Secretary

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THE WHITE HOUSE

FACT SHEET

THE FINANCIAL INSTITUTIONS ACT OF 1975

The President is transmitting to Congress today the Financial Institutions Act of 1975 which will expand competition, provide improved customer services, strengthen the ability of financial institutions to adjust to changing economic conditions, and improve the flow of funds for mortgage credit. This is part of the broad Administration effort to reform government regulation and make it more responsive to the needs of the American people.

BACKGROUND

The Financial Institutions Act was originally introduced in the Congress in October 1973. As a result of Congressional hearings and subsequent conferences between Administration officials and interested parties, this legislation proposes major reforms designed to provide important advantages to the consumer.

IMPORTANT ADVANTAGES TO CONSUMERS

(1) Provides for more convenient, more competitive, and thus less costly banking services. This Act will significantly expand the number of services that can be offered by the various financial institutions. For the first time, savings banks will be able to offer regular checking accounts and personal installment loans. Current restrictions governing credit unions will also be relaxed so that these organizations can offer mortgages to their members and more attractive and competitive financial services.

(2) Allows a new service which will, in effect, be an interest-paying checking account. NOW (for Negotiable Order of Withdrawal) accounts will provide the services of a checking account and will pay interest on deposited funds. These NOW accounts will be permitted for the first time on a national basis by commercial banks, savings and loan associations, and mutual savings banks. NOW accounts will provide increased interest income for millions of depositors.

(3) Allows small savers to earn more interest on savings because the Federal ceilings on interest paid by banks, savings and loans and mutual savings banks are eliminated. The ceiling would be eliminated five-and-a-half years after enactment.

(4) Assures home buyers a more dependable supply of mortgage funds. The elimination of interest-rate ceilings will give lending institutions the ability to retain more savings deposits during periods of high interest rates.

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(5) Works for less confusion for homebuyers who finance their new homes through VA or FHA mortgages because of the elimination of Federal interest rate ceilings on such mortgages. Mortgage lenders will no longer have to charge "points" at the time of closing in order to increase the yield of such mortgages up to the going market rate.

SECTION-BY-SECTION ANALYSIS

(1) Payment of Interest on Deposits - This section calls for the removal of interest rate ceilings on savings and demand deposits five years and six months from the enactment of the FIA. Five years from enactment, the Secretary of the Treasury, after consultation with other members of the coordinating committee of Financial Regulators, will transmit to Congress findings and recommendations concerning limitations on rates of interest or dividends paid by depository institutions.

The FIA also requires a comprehensive disclosure of the terms and rates of interest paid on savings deposits, under a Truth-in-Savings provision.

(2) Expanded Deposit Powers - The second part of the bill provides federally chartered savings and loan associations and savings banks with authority to provide checking accounts, Negotiable Order of Withdrawal (NOW) accounts and to engage in credit card operations. These new powers will be similar to those of commercial banks.

Nationally chartered commercial banks will be empowered to offer savings accounts and NOW accounts to all customers, individual and corporate.

All members of the Federal Reserve System or the Federal Home Loan Bank System will be required to maintain reserves against deposits in demand and NOW accounts in a form and amount prescribed by the Federal Reserve Board after consultation with the Federal Home Loan Bank Board. State chartered savings and loan associations insured by the Federal Savings and Loan Insurance Corporation will not have to be members of the Federal Home Loan Bank System, just as State chartered banks are not required to be members of the Federal Reserve System at present.

(3) Expanded Lending and Investment Powers - The third section of the FIA provides for broadened lending authority and increased income and liquidity for Federally chartered savings and loan associations and savings banks. The increased lending authority will include consumer loans, real estate loans, and construction loans. Investments in community welfare and development projects, commercial paper, high grade corporate debt, and bankers' acceptances will also be permitted on a limited basis.

The Act also liberalizes the powers of National Banks to make real estate loans and provides added authority for community welfare and development investments. In addition, the Federal Reserve Board will be granted more flexibility in defining assets eligible for discount. The Federal Home Loan Bank Board will be given expanded authority to define the types of assets eligible as collateral for advances.

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(4) Increased Chartering Opportunities - Part four of the FIA expands chartering opportunities of savings and loan associations and mutual savings banks. The Federal Home Loan Bank Board will be empowered to charter stock institutions which will have powers identical to Federal mutual savings and loan institutions and which will be called either Federal Savings and Loan Associations or Federal Savings Banks. Federally chartered and state chartered mutual institutions will be allowed to convert to either Federal mutual or Federal stock institutions and federally chartered mutual institutions will be allowed to convert to state mutual or stock institutions, subject to regulation and approval of the Federal Home Loan Bank Board. State institutions which convert to Federal charters may retain their life insurance, equity investments and corporate bond investments to the extent authorized by the Federal Home Loan Bank Board.

(5) Expanded Powers for Credit Unions - The fifth title of the Act authorizes federally chartered credit unions to offer mortgage loans of up to a thirty-year maturity to their members, variable share certificates similar to time savings accounts, personal lines of credit to members, and secured and unsecured loans over longer terms and in higher amounts than currently permitted. It will be administered by the National Credit Union Administration. A Central Discount Fund will be established to deal with emergency liquidity problems, such as might be caused by a plant closing. The Fund will be open to any Federal or state-insured credit union.

(6) Interest Rate Ceilings on FHA Insured and VA Guaranteed Loans - Title Six abolishes interest rate ceilings for FHA insured and VA guaranteed mortgage loans, and prohibits the charging of "points".

(7) Tax Incentive for Mortgage Investment - The seventh and last section of the FIA provides an incentive for mortgage investment by establishing a mortgage interest tax credit.

The mortgage interest tax credit will be available to all individuals and to all corporate investors maintaining at least ten percent of their assets in residential mortgages. Individuals will receive a credit of one and one-half percent of interest earned. Corporations will receive a credit varying between one and one-half and three and one-half percent, depending upon the proportion of their assets held in qualifying residential mortgages.

In the case of savings and loan associations and mutual savings banks, the new tax credit will replace the current special treatment of bad debt reserves. Such institutions may elect to switch to the new tax credit at any time between enactment of the Bill and December 31, 1978, at which time all must have adopted this method. Once they have made the change, they will not be able to switch back. The credit does not apply in the case of a taxpayer, such as the Federal National Mortgage Association (Fannie Mae), which issues obligations that are supported by an authority to borrow from the U.S. Treasury. Where a taxpayer has such close ties to the Federal Treasury, so as to be a quasi-governmental Agency and holds its assets chiefly in residential mortgages, it was deemed inappropriate to extend the benefit of the credit.

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