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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 Some of these are outdated and have outlived their usefulness.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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