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UNITED STATES LEAGUE OF SAVINGS ASSOCIATION

MIAMI BEACH, FLORIDA

NOVEMBER 11, 1975

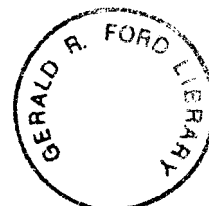
I STAND BEFORE YOU AS THE SECRETARY OF A FEDERAL DEPARTMENT WHOSE EXISTENCE SEEMS ONLY DIMLY FAMILIAR TO YOU.

THE CURIOUS PART IS THAT MY DEPARTMENT REPRESENTS THE FEDERAL GOVERNMENT'S PRINCIPAL CONTACT WITH THE HOUSING INDUSTRY -- AND HOUSING OBVIOUSLY IS OF MORE THAN PASSING INTEREST TO SAVINGS AND LOAN COMPANIES.

SOMETIMES WE SEEM TO HAVE A LESS FRIENDLY DIALOGUE GOING THAN BILLIE JEAN KING HAS WITH BOBBY RIGGS, AND I WONDER IF IT IS BECAUSE YOU DON'T KNOW VERY MUCH ABOUT HUD'S OPERATION OR BECAUSE YOU JUST PREFER IT THAT WAY.

I ASKED A NUMBER OF EXPERTS -- IN AND OUT OF GOVERNMENT -- FOR SOME OPINIONS ON WHAT I MIGHT SAY TO YOU TODAY.

WHAT I GOT WAS A GREAT DEAL OF ADVICE ON WHAT I COULDN'T SAY AS AN ADMINISTRATION SPOKESMAN EVEN THOUGH IT MIGHT PLEASE YOU; AND WHAT I SHOULDN'T SAY BECAUSE YOU WOULDN'T WANT TO HEAR IT.



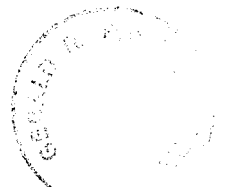
BUT, I ACCEPTED THIS INVITATION TO SPEAK BECAUSE I REALLY FEEL THAT, IN SPITE OF THE PAST, HUD AND THE SAVINGS AND LOANS HAVE BROAD AND SIGNIFICANT AREAS OF COMMONALITY. AND, IN THIS ERA OF ECONOMIC QUESTION MARKS, A BETTER EXCHANGE OF IDEAS BETWEEN US COULD BE OF SUBSTANTIAL MUTUAL BENEFIT.

NOW, YOU MAY HAVE HEARD SOMEWHERE ALONG THE WAY -- SINCE MY CRITICS MADE NO SECRET OF IT -- THAT I DIDN'T CLASSIFY AS A "HOUSING EXPERT" WHEN I TOOK THE JOB AT HUD.

THAT DUBIOUS DISTINCTION GIVES ME A LOT OF ON-THE-JOB ADVANTAGES.

LIKE THE CHILD IN THE FABLE OF THE EMPEROR'S CLOTHES -- I'M NOT EXPERT ENOUGH NOT TO QUESTION THINGS THAT ARE HELD TO BE TRUTHS, SIMPLY BECAUSE A LOT OF PEOPLE WANT TO THINK THAT THAT'S THE WAY THINGS ARE.

I DON'T MEAN TO BE FLIP, BUT IF THE OLD WAY OF DOING THINGS IS THE BEST WAY OF DOING THINGS, ONE SIMPLY HAS TO BE AMAZED AT THE SHAPE OF THINGS IN THE HOUSING INDUSTRY TODAY.



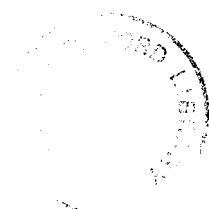
THE SAVINGS AND LOAN PRINCIPLE IS ONE OF THE OLDEST CONCEPTS IN MAKING A REALITY OF AMERICA'S OLDEST DREAM OF HOMEOWNERSHIP.

WITH 98 PERCENT OF THE NATION'S SAVINGS AND LOAN ASSETS AND 83 YEARS AS A NATIONAL ASSOCIATION, YOU HAVE MORE COLLECTIVE EXPERTISE IN THE HOME MORTGAGE MARKET THAN ANY OTHER ASSOCIATION OR FINANCIAL INSTITUTION IN THIS COUNTRY.

YET, YOU TOO, ARE VICTIMIZED BY ALL THE OLD WAYS -- TO THE POINT WHERE THE FORWARD TO YOUR FUTURE ALTERNATIVES REPORT, LAST YEAR QUESTIONED "WHETHER ANY OF OUR INSTITUTIONS CAN LONG SURVIVE" THIS PERIOD OF "DOUBLE-DIGIT INFLATION AND DOUBLE-DIGIT PRIME INTEREST RATES WHILE AT THE SAME TIME FULFILLING ITS TRADITIONAL RESPONSIBILITIES."

WELL, I DON'T QUESTION THE ABILITY OF OUR INSTITUTIONS TO SURVIVE, BUT I DO HAVE SOME INTERROGATIVES ABOUT THOSE "TRADITIONAL RESPONSIBILITIES".

AND, I'D LIKE TO TALK ABOUT THEM.



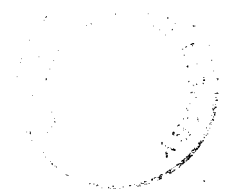
TRADITIONALLY, WE HAVE ACCEPTED THE CYCLICAL NATURE OF THE HOUSING FINANCE MARKET AND ITS COSTLY EFFECTS ON THE PRODUCERS AND CONSUMERS OF HOUSING.

TRADITIONALLY, WE HAVE ASSUMED THAT THE PRIVATE MARKET WAS PROVIDING ADEQUATE PROTECTION AGAINST ABUSIVE PRACTICES TO HOME PURCHASERS.

TRADITIONALLY, THE FEDERAL GOVERNMENT AS WELL AS THE LENDING INSTITUTIONS SUPPORTED THE CONSTRUCTION OF THOUSANDS UPON THOUSANDS OF HOMES IN THE SUBURBS, WHICH ENTICED HOMEOWNERS TO FLEE THE CITIES.

TRADITIONALLY, WE HAVE IGNORED THE SOCIAL AND ENVIRONMENTAL COSTS OF SUBURBAN SPRAWL, ALTHOUGH IT WAS CLEAR TO THOSE WHO WERE WILLING TO LOOK THAT URBAN DEVELOPMENT COSTS 50 PERCENT LESS IN TERMS OF LAND, CAPITAL, ENERGY AND ENVIRONMENTAL TOLL.

TRADITIONALLY, WE HAVE IGNORED THE BILLIONS OF DOLLARS OF EXISTING HOUSING STOCK LOCATED IN OUR CITIES AND THE BILLIONS OF DOLLARS OF SUPPORTIVE ASSETS IN THE FORM OF WATER AND SEWER LINES, ROADS, TRANSPORTATION SYSTEMS, UTILITIES, SCHOOLS, HOSPITALS, AND FACTORIES.



TRADITIONALLY, WE HAVE VIEWED AMERICA AS A CORNUCOPIA OF INEXHAUSTIBLE RESOURCES, AS WE CONSUMED HER ABUNDANCE.

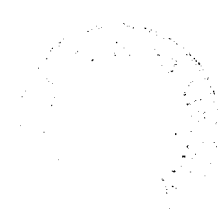
BUT, TODAY A SCARCITY OF ENERGY, A TIGHTER ECONOMY AND CONCERNS ABOUT THE QUALITY OF OUR AIR AND WATER AND USE OF OUR LAND COMPEL US TO WEIGH THE COST OF OUR TRADITIONAL NATIONAL OVER-INDULGENCE.

WE CAN NO LONGER ACCEPT THE TRADITIONAL NOTION THAT THE WAY TO DEAL WITH A "USED" HOME IS TO THROW IT AWAY AND BUILD A NEW ONE SOMEWHERE ELSE.

WE MUST SEEK TO PRESERVE AND RECYCLE THE WEALTH OF HOUSING THAT WE HAVE IN OUR CITIES AND OUR SUBURBS.

AS A NATION WE HAVE PLEDGED TO HOUSE THE 16 MILLION FAMILIES IN THIS COUNTRY WHO ARE OFFICIALLY CLASSED AS "THE HOUSING POOR," WHICH IS GOVERNMENT SHORTHAND FOR THOSE WHO LIVE IN SLUMS OR WHO PAY A DISPROPORTIONATELY HIGH PERCENTAGE OF THEIR INCOME FOR SHELTER.

THE LAST TWO YEARS HAVE STARKLY DEMONSTRATED THE COSTS OF THE BROAD CYCLICAL SWINGS WHICH HAVE CHARACTERIZED YOUR INDUSTRY. WE KNOW WE MUST TAKE STEPS TO ENSURE AN ADEQUATE SUPPLY OF REASONABLY PRICED MORTGAGE MONEY.



FINALLY, PUBLIC CLAMOR OVER TRUTH IN LENDING, DISCRIMINATION IN MORTGAGE CREDIT, SETTLEMENT PROCEDURES AND CONDOMINIUMS HAVE CAST DOUBT ON WHETHER THE PRIVATE MARKET IS ADEQUATELY PROTECTING THE CONSUMERS ON WHOM IT DEPENDS FOR SURVIVAL.

GOVERNMENT CANNOT HANDLE THIS AGENDA ALONE. FOR THE GOVERNMENT ISN'T A WELL FOR INDUSTRY. IN FACT, IT ISN'T EVEN A VERY PRACTICAL PUMP. GOVERNMENT DECISIONS SIMPLY CANNOT REPLACE CAREFUL, WELL THOUGHT-OUT BUSINESS JUDGMENTS MADE BY THOSE WHO LIVE BY AND ENJOY THE BENEFITS OF AMERICAN FREE ENTERPRISE.

WHAT THE GOVERNMENT SHOULD DO -- AND WHAT IT DOES BEST -- IS TO USE ITS POWERS AND THE TAXPAYERS' MONEY JUDICIOUSLY TO HELP "PRIME THE PUMP" -- AND LET PRIVATE INDUSTRY TAKE IT FROM THERE.

CERTAINLY YOU AGREE. FOR WHEN I STUDIED YOUR COMMITTEES' RECOMMENDATIONS ON FUTURE ALTERNATIVES, I WAS IMPRESSED BY MORE THAN THE WIDE VARIETY AND WISE REASONING THEY CONTAINED.

OUT OF FIFTEEN RECOMMENDATIONS, ALL BUT TWO, WERE CONCERNED WITH EXTRICATING YOUR INDUSTRY FROM SOME CODE, REGULATION OR RESTRICTION PLACED ON IT BY SOME GOVERNMENT ENTITY.



YOU'RE NOT ALONE. THERE ISN'T A COMMERCIAL ENTERPRISE IN THIS LAND OF THE "FREE" TODAY THAT DOESN'T HAVE MORE GOVERNMENT ON ITS BACK THAN IT CAN COMFORTABLY HANDLE -- AND, ALL TOO OFTEN, MORE THAN IS NECESSARY TO ACCOMPLISH THE INTENDED PURPOSE.

BUT, IT IS UNREALISTIC TO BLAME THE GOVERNMENT'S BIGNESS ENTIRELY ON "GOVERNMENT" -- WHOEVER WE DEFINE THAT TO BE.

THEORETICALLY, THE AMERICAN PEOPLE MAKE THE LAWS -- AND SOME OF THE RULES THAT HAVE BEEN FASHIONED LEAD INEVITABLY TO THE CONCLUSION THAT THERE MUST HAVE BEEN SOME PAST SHIRKING, HERE AND THERE, OF "TRADITIONAL RESPONSIBILITIES".

IN TRUTH, THE MAGIC POWER OF THE FEDERAL GOVERNMENT TO CURE EVERY ILL ON THE SOCIAL RICHTER SCALE HAS BEEN SO OVER-SOLD TO THE AMERICAN PEOPLE THAT GOVERNMENT HAS BEEN HANDED EVERY STICKY PROBLEM THE PRIVATE SECTOR DIDN'T SEEM TO HAVE THE WILL TO FACE AT A TIME WHEN THE NEED WAS PLAIN.

ENTIRE INDUSTRIES HAVE ACTUALLY ENCOURAGED -- BY THEIR FAILURE OF "TRADITIONAL RESPONSIBILITIES" -- GOVERNMENT TO STEP IN AND MAKE RULES FOR THINGS THAT THE INDUSTRY KNOWS FAR MORE ABOUT THAN THOSE WHO ARE DRAFTING THE RULES.



LOOK AT THE REAL ESTATE SETTLEMENT PROCEDURES ACT.

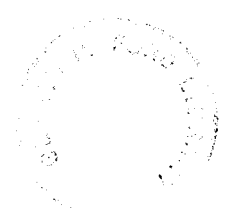
RESPA IS A PRIME EXAMPLE OF WHAT HAPPENS WHEN INDUSTRY AND GOVERNMENT FAIL TO COMMUNICATE. HERE IS A SET OF WELL INTENTIONED REGULATIONS, ENACTED INTO LAW WITHOUT THE BASIC INTERCHANGE OF IDEAS NECESSARY TO DETERMINE THE SCOPE AND NATURE OF THE PROBLEM AND THE MINIMUM DESIRABLE LEGISLATION TO CORRECT IT.

AS A RESULT, WHAT STARTED OUT TO CURB THE ABUSES OF A FEW, ENDED UP STIFLING THE LEGITIMATE OBJECTIVES OF THE MANY.

NOW THAT WE HAVE HAD THAT NEEDED INTERCHANGE -- WE DO FAVOR A MAJOR OVERHAUL OF THAT LEGISLATION.

UNLESS GOVERNMENT AND INDUSTRY ARE PARTNERS -- TALKING AND LISTENING TO EACH OTHER, AND WORKING TOGETHER ON TOUGH, COMMON PROBLEMS -- WE CAN LOOK FORWARD TO THE KIND OF "SOLUTIONS" THAT WORK TO THE DETRIMENT OF ALL OF US.

TAKE OUR APPROACH TO CONDOMINIUM REGULATION WHICH ILLUSTRATES HOW AN INTERCHANGE CAN BE THE DIRECT ROAD TO SOLUTIONS.



AS YOU KNOW, WE CONDUCTED A YEAR-LONG STUDY. DURING ITS COURSE WE TALKED TO MANY SAVINGS AND LOAN REPRESENTATIVES AND HELD HEARINGS AROUND THE COUNTRY WHERE YOU AND YOUR CLIENTS TESTIFIED. WE DID IDENTIFY ABUSES -- SOME OF THEM EXTREMELY SERIOUS -- BUT MOST OF THEM WERE NOT COMMON ENOUGH ON A NATIONAL SCALE TO WARRANT FEDERAL REGULATION.

IT WAS ON THE BASIS OF THAT STUDY THAT IN SEPTEMBER I TESTIFIED BEFORE THE SENATE BANKING COMMITTEE THAT FEDERAL REGULATION SHOULD BE MINIMAL. I FAVOR LEAVING DETAILED REGULATION OF LOCAL CONDOMINIUM DEVELOPMENT TO THE STATES WHICH ARE BEST EQUIPPED TO TAILOR REGULATORY LAWS TO LOCAL CONDITIONS.

WHILE I SUPPORT A UNIFORM 8-POINT DISCLOSURE REQUIREMENT WHICH WOULD PROTECT THE CONSUMER AND RELIEVE THE DEVELOPER NOW BESEIGED WITH A MULTITUDE OF CONFLICTING REGULATIONS, I OPPOSE CREATING A NEW FEDERAL BUREAUCRACY AND I WOULD LEAVE ENFORCEMENT TO THE PARTIES AND TO THE STATES.

ALSO ILLUSTRATIVE OF A COOPERATIVE APPROACH ARE OUR EFFORTS OVER THE PAST TWO YEARS TO MAINTAIN OPPORTUNITIES FOR HOMEOWNERSHIP WHEN INFLATION DROVE TRADITIONAL HOMEBUYERS FROM THE MARKET AND SLOWED THE HOUSING INDUSTRY ALMOST TO THE POINT OF STOPPING.



HUD -- UNDER ITS SO-CALLED "TANDEM PROGRAM" -- HAS OFFERED TO BUY \$15.5 BILLION WORTH OR OVER 500,000 MORTGAGES -- THAT BEAR INTEREST BELOW THE MARKET RATE.

TODAY, THE TANDEM RATE IS 7-1/2 PERCENT IN A MARKET THAT CALLS FOR ABOUT 9 PERCENT ON SINGLE-FAMILY MORTGAGES.

ON A \$35,000 MORTGAGE, THE "TANDEM" BORROWER SAVES ABOUT \$20 IN INTEREST CHARGES PER MONTH -- OR ABOUT \$9,500 OVER THE LIFE OF THE MORTGAGE.

USE OF THE TAXPAYERS' MONEY IN THIS WAY EXPANDS HOME-OWNERSHIP OPPORTUNITY AND ALSO STIMULATES CONSTRUCTION, BUT IT ALSO -- AVOIDS AN OLD HAZARD -- IT DOES NOT FEDERALIZE HOUSING.

THE SAME BASIC LOGIC APPLIES TO HUD'S HOMEOWNERSHIP SUBSIDY PROGRAM -- WHICH I REACTIVATED IN SUBSTANTIALLY REVISED FORM ABOUT THREE WEEKS AGO.

AS YOU PROBABLY KNOW, PRESIDENT FORD HAS AUTHORIZED ME TO RELEASE \$264.1 MILLION THAT HAD BEEN IMPOUNDED EARLY IN 1973.



IN RELATION TO NATIONAL NEEDS, \$264.1 MILLION ISN'T FORT KNOX, BUT IT WILL SUBSIDIZE MORE THAN 250,000 UNITS OF LOW COST HOUSING -- GENERATE MORE THAN \$6-1/2 BILLION IN CONSTRUCTION ACTIVITY AND CREATE MORE THAN 500,000 NEW CONSTRUCTION JOBS.

ONE IMPORTANT KEY TO THE REVISED HOMEOWNERSHIP SUBSIDY PROGRAM IS THAT IT IS TARGETED TO THAT RANGE OF LOWER INCOME FAMILIES WHO HAVE BEEN AMERICA'S TRADITIONAL BUYERS OF NEW HOMES -- BUT WHO HAVE BEEN PRICED OUT OF THE MARKET BY THE INFLATIONARY SPIRAL.

UNDER THE NEW PROGRAM THE GOVERNMENT CAN SUBSIDIZE DOWN TO 5 PERCENT THE INTEREST ON A MORTGAGE IN THE RANGE OF \$20,000 TO \$25,000 HELD BY A PARTICIPATING LOW INCOME FAMILY.

BY PROVIDING INTEREST SUBSIDIES UNDER THIS PROGRAM, GOVERNMENT WILL MAKE HOMEOWNERSHIP AVAILABLE TO MORE AMERICAN FAMILIES -- WHICH WILL HELP GET THE MACHINERY IN THE HOUSING INDUSTRY MOVING AGAIN.

THESE PROGRAMS, HOWEVER, DEPEND ON THE PRIVATE MORTGAGE MARKET AND CONSTRUCTION INDUSTRY TO PROVIDE THE NECESSARY CREDIT AND HOUSING.




IN USING THESE PROGRAMS, WE KEEP A SHARP EYE ON THE NATION'S TOTAL ECONOMY. WE KNOW THAT EXCESSIVE USE OF OUR "STIMULANTS" COULD BE THE DEATH OF OUR PATIENT -- BY REQUIRING GREATER TREASURY BORROWING WHICH WILL DRIVE UP THE COST OF MORTGAGE MONEY AND DRIVE AWAY MANY HOMEBUYERS.

ANOTHER ILLUSTRATION OF THE COOPERATIVE APPROACH IS THE \$2.6 BILLION ON COMMUNITY DEVELOPMENT GRANTS WHICH HUD DISTRIBUTED TO LOCAL COMMUNITIES LAST YEAR. WITH CITIZEN PARTICIPATION, LOCAL COMMUNITIES UTILIZED NEARLY 60 PERCENT OF THOSE FOR NEIGHBORHOOD CONSERVATION, AND A NUMBER OF COMMUNITIES USED THE FEDERAL GRANTS TO ATTRACT FUNDS FROM THE PRIVATE SECTOR.

THE LATEST EXAMPLE OF THIS PARTNERSHIP-IN-ACTION IS HUD'S URBAN HOMESTEADING DEMONSTRATION PROGRAM IN WHICH 22 AMERICAN CITIES WILL PARTICIPATE USING \$5 MILLION IN HUD-ACQUIRED PROPERTIES AND AN ADDITIONAL \$5 MILLION IN REHABILITATION LOAN FUNDS.

THE OBJECT, OF COURSE, IS THE VITALLY NEEDED PRESERVATION AND RECYCLING OF WORN-DOWN URBAN NEIGHBORHOODS -- BUT A CLEAR DIVIDEND TO THE NATION IS THE SUCCESS OF THE CITIES IN SECURING PRIVATE REINVESTMENT CAPITAL FOR SUCH AN AMBITIOUS AND HOPEFUL EXPERIMENT.



CERTAINLY, IT IS TESTIMONY TO THE THESIS THAT AMERICA CANNOT SOLVE ITS URBAN PROBLEMS WITHOUT THE COOPERATION OF ALL AMERICANS.

THAT IS THE THEME OF OUR URBAN REINVESTMENT TASK FORCE FORMED BY HUD AND THE FEDERAL HOME LOAN BANK BOARD. RECENTLY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE COMPTROLLER OF THE CURRENCY AND THE FEDERAL RESERVE BOARD AGREED TO JOIN.

EACH OF OUR TASK FORCE PROGRAMS HAS A COMMON QUADRANGLE OF INTERESTED LEADERSHIP: (1) CITIES PROVIDING IMPROVED PUBLIC SERVICES; (2) FINANCIAL INSTITUTIONS MAKING MARKETABLE LOANS; (3) PRIVATE AND PUBLIC SOURCES PROVIDING A HIGH RISK LOAN FUND; AND (4) LOCAL CITIZENS GROUPS PROVIDING NEEDED ENTHUSIASM AND SWEAT-EQUITY.

THIS LEVERAGING OF PUBLIC FUNDS TO PROMOTE PRIVATE REINVESTMENT IS THE KIND OF PARTNERSHIP PRINCIPLE THAT CAN CHANGE URBAN DECLINE INTO NEW URBAN GROWTH.

THE POSSIBILITIES FOR COOPERATION ARE ENDLESS. YOU KNOW THAT WE ARE BOTH SEARCHING FOR WAYS TO ATTRACT A STEADY AND HEALTHY FLOW OF MORTGAGE MONEY.



DURING THE 1930 DEPRESSION THE GOVERNMENT FOSTERED EXPERIMENTATION WITH THE LOW DOWN PAYMENT LONG-TERM MORTGAGE INSTRUMENT, WHICH GAVE MILLIONS OF AMERICAN FAMILIES A CHANCE FOR HOMEOWNERSHIP. THE PROBLEMS OF TODAY'S ECONOMY REQUIRE NEW SOLUTIONS. IT IS AGAIN TIME FOR GOVERNMENT TO FOSTER EXPERIMENTATION WITH NEW DEBT INSTRUMENTS.

LENDERS HAVE INCREASED THE INFLATION PREMIUM IN THE INTEREST RATE IN FIXED RATE MORTGAGES TO PROTECT THEMSELVES. AS A RESULT, NEW BORROWERS ARE FORCED TO CARRY THE BURDEN OF THE LOWER RATES GIVEN PAST BORROWERS. AND, AS RATES RISE, INCREASING NUMBERS OF AMERICAN FAMILIES ARE PRICED OUT OF HOMEOWNERSHIP.

RECENTLY, HUD CONTRACTED WITH THE SLOAN SCHOOL OF MANAGEMENT AT MIT TO STUDY NON-LEVEL PAYMENT MORTGAGES.

THE STUDY FOUND THAT SUCH MORTGAGES CAN HELP TO STABILIZE THE FLOW OF MORTGAGE CREDIT. THERE ARE PREDICTABLE PERIODS IN THE LIFE AND TIMES OF THE MORTGAGOR WHEN HE CAN AFFORD TO PAY OFF LARGER SLICES OF THE MORTGAGE PRINCIPAL.




USUALLY, ITS ABOUT THE TIME THAT THE FAMILY STARTS PRICING A SECOND CAR OR A BOAT. THE NON-LEVEL PAYMENT MORTGAGE CAN ACCOMMODATE THIS FACT.

A HUD NOTICE PUBLISHED IN THE FEDERAL REGISTER ON AUGUST 18, INVITED PARTICIPANTS IN THE MORTGAGE MARKET -- PARTICULARLY THE SAVINGS AND LOAN INSTITUTIONS -- TO SUGGEST FOR EXPERIMENTATION AND STUDY POSSIBLE DEBT INSTRUMENT IDEAS, INCLUDING NON-LEVEL PAYMENT MORTGAGES, THAT HUD MIGHT SUPPORT WITH FHA MORTGAGE INSURANCE.

THE RESPONSE WAS REMARKABLY UNDER-WHELMING. ONLY 28 RESPONSES HAVE BEEN RECEIVED AND ONLY ONE WAS FROM THE SAVINGS AND LOAN INDUSTRY -- NOTWITHSTANDING ONE OF YOUR OWN STUDY RECOMMENDATIONS ADDRESSES THE VARIABLE RATE AND RENEGOTIABLE MORTGAGE CONTRACT AND DEVELOPING OTHER NEW FINANCING TECHNIQUES.

YOU ALSO RECOMMEND DEVELOPING PRIVATELY ISSUED MORTGAGE BACKED SECURITIES AND IMPROVING THE SECONDARY MORTGAGE MARKET. HUD, THROUGH GNMA MORTGAGE BACKED SECURITIES PROGRAM, HAS BEEN A PIONEER IN THIS AREA. PRESENTLY, OVER 21 PERCENT OF GNMA'S SECURITIES ARE HELD BY SAVINGS AND LOANS. THIS PROGRAM HAS ALSO ENCOURAGED THE ENTRY OF SUCH NEW SOURCES OF CAPITAL AS PENSION FUNDS WHICH NOW HOLD 8 PERCENT OF GNMA SECURITIES.



AS WITH FHA'S PIONEERING OF THE LONG-TERM MORTGAGE, THE GNMA MORTGAGE BACKED SECURITIES HAS SERVED AS A PROTOTYPE FOR PRIVATE INNOVATION. TAKE THE RECENT \$50 MILLION OFFERING BY CALIFORNIA FEDERAL SAVINGS AND LOAN -- OF MORTGAGE BACKED BONDS TO THE PUBLIC -- SURELY AN EXCITING SOURCE OF FUTURE OPPORTUNITY FOR YOUR INDUSTRY.

GNMA SECONDARY MARKET OPERATIONS IMPACT ON THE NEW MORTGAGE FUTURES MARKET. THREE WEEKS AGO, FUTURES CONTRACTS IN GNMA GUARANTEED CERTIFICATES BACKED BY FHA AND VA HOME MORTGAGES JOINED PORK BELLIES AND SOY BEANS IN TRADING ON THE CHICAGO BOARD OF TRADE. THAT DAY ALONE \$80 MILLION IN CERTIFICATES TRADED.

THAT MARKET GIVES A MORTGAGE ORIGINATOR A HEDGE AGAINST INTEREST RATES RISING BETWEEN THE TIME HE ORIGINATES THE MORTGAGE AND THE TIME HE MAKES DELIVERY. THE RESULTS SHOULD BE A REDUCTION IN THE FLUCTUATIONS IN SHORT-TERM INTEREST RATES, A MORE STABLE SUPPLY OF MORTGAGE CREDIT, AND FEWER POINTS -- HENCE LOWER PRICES TO THE HOMEBUYER.

ON A LONG-TERM BASIS, THE ADMINISTRATION IS ALSO BACKING THE FINANCIAL INSTITUTIONS ACT, WHICH WAS REPORTED OUT OF THE SENATE BANKING COMMITTEE. THE ACT WOULD EXPAND THE POWERS OF THRIFT INSTITUTIONS TO INCLUDE CONSUMER LOANS, CHECKING ACCOUNTS AND OTHER SERVICES FROM WHICH THEY ARE NOW BARRED. IT WOULD ALSO EXPAND THE INVESTMENT OPTIONS OF THRIFT INSTITUTIONS. THESE CHANGES SHOULD IMPROVE THE MATURITY IMBALANCES WHICH PLAGUE THE THRIFT INDUSTRY AND IMPROVE YOUR ABILITY TO RESPOND TO CHANGING INTEREST RATES.

THE ACT ALSO INCLUDES A MORTGAGE INTEREST TAX CREDIT, WHICH INCREASES WITH THE RECIPIENT'S MORTGAGE HOLDINGS. THIS TAX CREDIT COULD BE AN IMPORTANT STIMULANT TO THE SECONDARY MORTGAGE MARKET.

THE FINANCIAL INSTITUTIONS ACT HAS BEEN CRITICIZED BOTH FOR DOING TOO MUCH AND FOR DOING TOO LITTLE. SOME SAY IT CHANGES COMPETITIVE POSITIONS IN THE INDUSTRY WITHOUT GOOD REASON. BUT WE SEE THE ACT AS SEEKING TO PROVIDE FOR A LESS REGULATED MARKET IN WHICH ALL BANKING INSTITUTIONS CAN COMPETE MORE EFFECTIVELY.



THE BENEFITS TO BANKING FROM THIS DEREGULATION SEEM TO ME TO FAR OUTWEIGH ANY FEATURES WHICH ARE SEEN ON A SHORT-RUN BASIS TO FAVOR ONE GROUP OF INSTITUTIONS OVER ANOTHER. DEREGULATION WILL HELP PROVIDE A MORE CONSTANT AND MORE ADEQUATE SUPPLY OF MONEY WHICH IS ESSENTIAL TO A HEALTHY AND STABLE HOUSING INDUSTRY. IT IS BETTER TO HAVE 70 PERCENT OF A MILLION DOLLARS THAN 99 PERCENT OF A THOUSAND. AND, A FREER MARKET IS WORTH SEEKING.

NOW, I REALIZE, OF COURSE, THAT EVERY ITEM ON THIS "LAUNDRY LIST" OF HUD ACTIVITIES ISN'T GOING TO MAKE YOU STAND UP AND CHEER.

IN TRUTH, I DIDN'T COME HERE TO "SELL" YOU HUD'S PROGRAMS. BUT I DID THINK IT WOULD BE USEFUL IF I SHOWED YOU HUD'S HAND -- AS AN INVITATION TO THE SERIOUS DIALOGUE -- WHICH THIS NATION SO DESPERATELY NEEDS.

I'M NOT WED TO ANY PARTICULAR ANSWER TO ANY OF OUR PROBLEMS -- EITHER AT HUD OR OUR THERE WHERE ALL ANSWERS MUST STAND THE TOUGH TEST OF WORKABILITY.



BUT TIME IS TOO SHORT FOR EITHER NON-ANSWERS OR THE
WRONG ANSWERS.

THE PROBLEMS ARE BIGGER THAN EVEN BIG GOVERNMENT.
INDEED, IF LEFT UP TO GOVERNMENT ALONE, PROBLEMS HAVE A
WAY OF BEING COMPOUNDED.

I FIND IN YOUR RECOMMENDATIONS ON FUTURE ALTERNATIVES
A PRAGMATIC ADMISSION THAT THERE HAS TO BE A BETTER WAY
TO DO THE THINGS THAT MUST BE DONE.

AND I REALLY BELIEVE IT IS TIME WE ALL STARTED DOING
THEM TOGETHER.

THANK YOU VERY MUCH.

