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original 12/31/75

APPROVED  
DEC 31 1975

Statement Issued 1/1/76

ACTION

THE WHITE HOUSE  
WASHINGTON  
December 31, 1975

Last Day: December 31

J. O. White  
1/2

MEMORANDUM FOR THE PRESIDENT  
FROM: JIM CANNON  
SUBJECT: S. 1281 - Depository Institutions

Attached for your consideration is S. 1281, sponsored by Senators Proxmire, Stevenson and Brooke, which would:

- Extend the authority of Federal financial regulatory agencies to regulate interest rates on deposits until March 1, 1977. (Title I)
- Extend the life of the National Commission on Electronic Fund Transfers to provide that the interim and final reports of the Commission be submitted within one and two years, respectively from the date of Senate confirmation of the chairperson rather from the date the Commission was established. (Title II)
- Require financial institutions to disclose by geographic area the number and dollar amount of home mortgage loans. (Title III)

Title III of the enrolled bill is intended to allow individuals and public officials to detect discriminatory geographic factors. The Administration has repeatedly opposed Title III because it would impose an additional Federal reporting burden upon depository institutions by requiring them to compile, match and array loan information by census tract. The Council on Wage and Price Stability and CEA recommend disapproval of the enrolled bill due to this title.





OMB shares the concerns of CEA and the Council on Wage and Price Stability but has been informally advised that a veto would seriously jeopardize chances for passage of the Financial Institutions Act, the most objectionable features of the Title have been watered down, and the requirements will be imposed only for a period of four years pending further studies and experience.

Additional background information is provided in OMB's enrolled bill report at Tab A.

OMB, Max Friedersdorf, Bill Seidman, Counsel's Office (Lazarus) and I recommend approval of the enrolled bill and issuance of the attached signing statement explaining your concerns about Title III. The statement has been cleared by Paul Theis.

RECOMMENDATION

That you sign S. 1281 at Tab B.

That you approve the signing statement at Tab C.

Approve



Disapprove

\_\_\_\_\_







EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

DEC 26 1975

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill S. 1281 - Depository institutions  
Sponsor - Sen. Proxmire (D) Wis., Sen. Brooke (R)  
Mass. and Sen. Stevenson (D) Ill.

Last Day for Action

December 31, 1975 - Wednesday

Purpose

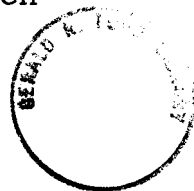
To extend the authority of Federal financial regulatory agencies to regulate interest rates on deposits; to extend the life of the National Commission on Electronic Fund Transfers, and to require financial institutions to disclose by geographic area the number and dollar amount of home mortgage loans.

Agency Recommendations

Office of Management and Budget	Approval (Signing Statement attached)
Department of Housing and Urban Development	Approval
Federal Deposit Insurance Corporation	Approval (Informally)
Federal Home Loan Bank Board	Approval
Department of the Treasury	No objection
National Credit Union Administration	No objection
Federal Reserve Board	No objection (Informally)
Department of Justice	No objection (Informally)
Council of Economic Advisers	Disapproval
Council on Wage and Price Stability	Disapproval (Informally)

Discussion

The enrolled bill consists of three separate titles which correspond to the three purposes listed above.



Title I extends to March 1, 1977, the authority (popularly known as "Regulation Q") by which the various Federal financial regulatory agencies set interest rate ceilings on deposits in the financial institutions under their respective jurisdictions. Without this legislation, the authority would lapse December 31, 1975.

Regulation Q has held down the amount of funds in financial institutions by limiting the interest rates they can offer savers. It has also been used to insure that savings (thrift) institutions, whose assets are mostly long term mortgages, can continue to attract funds by offering higher interest rates than commercial banks, whose loans and deposits tend to be shorter in maturity. Under existing law, financial regulatory agencies are able to adjust the interest differential between these two types of depository institutions administratively. This differential has been one quarter of a percent since 1973.

Title I of S. 1281, however, would permit the elimination or reduction of the existing quarter point interest rate differential but only after the approval of Congress had been given in a concurrent resolution, in effect a "legislative veto." The title further provides that where the differential is lessened or eliminated for any category of account, the interest rate established for commercial banks could be no higher than the rate previously established for thrift institutions.

Previous extensions of Regulation Q have been routine, but this year the Administration opposed the continuation of interest rate ceilings and differentials. This opposition was based on substantive arguments against arbitrary ceilings and on the Administration's desire to get the Congress to focus on the Financial Institutions Act (FIA) (S. 1267), a major part of your regulatory reform program. That legislation would gradually phase out Regulation Q over five and a half years and permit all financial institutions greater freedom to offer a variety of loans and services and to pay competitive, rather than regulated, rates of interest to all depositors. The Senate passed the FIA on December 11, but the House has only begun hearings.

When it became clear that some action was necessary before year end, the Administration requested a simple six-month extension of the present Regulation Q authorities. The enrolled bill extends the regulation for 15 months. Although it does not, per se, mandate an interest rate differential, by setting up a new "legislative veto" obstacle, the bill makes the reduction or elimination of the existing differential very difficult and problematic.

Although the Administration would have preferred a shorter extension, the affected agencies and we believe that the problems posed by the extension of Regulation Q, the maintenance of the interest rate differential, and the legislative veto provision are not of sufficient magnitude to warrant withholding approval. We will continue to push for Congressional enactment of the Financial Institutions Act prior to March 1977.

Title II authorizes the extension of the National Commission on Electronic Fund Transfers by providing that the interim and final reports of the Commission be submitted within one and two years, respectively, from the date of Senate confirmation of the Commission's chairperson rather than from the date the Commission was established in October 1974. The Commission has the responsibility to study the impact of the emerging electronic fund transfer technology on the nation's banking industry. On October 6, 1975, you nominated Mr. William Widnall to be chairperson of the Commission and he was confirmed on October 29, 1975.

Title III, which at one time was a separate bill, is cited as the Home Mortgage Disclosure Act of 1975. The intent of this title is to allow individuals and public officials to detect discriminatory practices in the granting of home mortgages based upon geographic factors (commonly known as "redlining"). The title contains the disclaimer that it is not intended to encourage unsound lending practices or the allocation of credit. Depository institutions operating within a standard metropolitan statistical area (SMSA) and with assets over \$10 million would be required to compile and make easily accessible for public inspection the number and dollar value of mortgage and home improvement loans which were originated or purchased during the institution's last fiscal year. Loan disclosure information would have to be itemized by

- census tracts (or, if this is impracticable, by zip code) for loans secured by property within the SMSA;
- Federally insured or guaranteed loans; and
- non-owner occupant mortgagors.

The above information would have to be maintained and publicly available for five years.

Regulations would be prescribed by the Federal Reserve Board (FRB) and enforcement would be the responsibility of the cognizant Federal financial regulatory agency, including the Federal Deposit Insurance Corporation (FDIC), the FRB, the Comptroller of the Currency, the Federal Home Loan Bank Board (FHLBB), the Federal Savings and Loan Insurance Corporation and the National Credit Union Administration (NCUA). This authority would take precedence over inconsistent State law, as determined by the FRB, but would not exempt any State-chartered institution from compliance with the State's recordkeeping and disclosure laws. The FRB may exempt State-chartered institutions where State law is substantially equal, in effect and compliance, to this authority.

The FHLBB would be required

- to develop, in consultation with the Bureau of the Census and other Federal financial regulatory agencies, methods for matching addresses and census tracts, in order to facilitate compliance by depository institutions with this title;
- to contract for assistance; and
- to recommend to the Senate and House Banking Committees such additional legislation as the Board deems appropriate to carry out this title.

The FRB, in consultation with the Secretary of Housing and Urban Development, is directed to conduct a study of, and to report to the Congress within three years on the question of whether depository institutions located outside SMSA's should be subject to the disclosure provisions of this title. To carry out the above cited responsibilities of the FHLBB, the bill authorizes the appropriation of such sums as may be necessary. The effective date and the expiration date of this title are, respectively, 180 days and four years after the date of enactment.

The issues raised in Title III are quite complex and highly controversial. The legislation received Congressional support in part because a number of well documented studies in major cities have shown that, prima facie, "redlining" does occur. While the practice violates regulations of the FHLBB, it is difficult to prove in fact because lending institutions must take into account a number of factors before making a loan and it is difficult to determine which one is most significant.

Thus proponents of this bill have argued that disclosure is the only feasible means of revealing a pattern of possible discriminatory practices and discouraging their continuation.

The Administration has repeatedly opposed Title III, noting that the enactment of this measure would impose an additional Federal reporting burden upon depository institutions by requiring them to compile, match and array loan information by census tract. In addition, Administration officials have expressed the concern that this new disclosure requirement could be the precursor to credit allocation laws, notwithstanding the disclaimer of credit allocation contained in the title. Industry sources testified that these additional reports would further complicate their paperwork burden and lead to higher operating and lending costs, although the extent of additional costs was disputed by proponents of this legislation.

Several States have recently enacted similar disclosure requirements, but it is too early to tell whether or not the information obtained has produced any real benefit. It may in fact be more misleading than meaningful, because the information disclosed will reveal what has happened but not necessarily why. The availability of mortgage funds and the desire to avert risky investments will always influence financial institutions' willingness to lend money on the collateral of inner-city real estate, independent of the racial or ethnic character of the neighborhood.

The majority of agencies recommend approval or have registered no objection; however, the Council on Wage and Price Stability and the Council of Economic Advisers are opposed.

Your signature on this bill may be interpreted as acquiescence to further Federal incursions into the private sector and the further proliferation of unnecessary paperwork. However, we recommend that you do not withhold approval of the bill for the following reasons. We have been advised informally by Treasury officials that a veto would seriously jeopardize the Administration's chances for passage of the Financial Institutions Act. Further, a number of the most objectionable features of Title III have been watered down or removed in conference, and these requirements will be imposed only temporarily (four years) pending further studies and experience.

If you approve the bill, we suggest that you issue a statement explaining your concerns about Title III and indicating that if the consequences become too burdensome, you will transmit amending legislation. A proposed signing statement is attached.

*James M. Frey*  
Assistant Director  
for Legislative Reference

Enclosures





THE DEPUTY SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

DEC 22 1975

Director, Office of Management and Budget  
Executive Office of the President  
Washington, D. C. 20503

Attention: Assistant Director for Legislative  
Reference

Sir:

Reference is made to your request for the views of this Department on the enrolled enactment of S. 1281, "To extend the authority for the flexible regulation of interest rates on deposits and share accounts in depository institutions, to extend the National Commission on Electronic Fund Transfers, and to provide for home mortgage disclosure."

Title I of the enrolled enactment would extend Regulation Q until March 1, 1977. Title I would also prohibit the elimination or reduction of interest rate differentials which were in effect on December 10, 1975 for deposits or accounts between banks insured by the Federal Deposit Insurance Corporation, savings and loans and other institutions insured by the Federal Savings and Loan Insurance Corporation, and mutual savings banks unless there was congressional approval. Title II would provide that the interim and final reports of the National Commission on Electronic Fund Transfers be submitted within one and two years, respectively, from the date of the confirmation by the Senate of the Chairperson. Title III would require depository institutions to make available to the public information concerning home mortgage loans.

The Department has no objection to a recommendation that the enrolled enactment be approved by the President.

Sincerely yours,

  
Stephen S. Gardner





THE DEPUTY SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

December 22, 1975

Director, Office of Management and Budget  
Executive Office of the President  
Washington, D. C. 20503

Attention: Assistant Director for Legislative  
Reference

Attached is our official enrollment memoranda  
covering S. 1281.

I just want to make it clear that the Treasury's  
decision to express no objection to the President's  
approval of this bill does not indicate agreement with  
the provision of Title I which restricts the power  
of the regulatory authorities to eliminate or reduce  
interest rate differentials without Congressional  
approval. My testimony details our objections to this  
provision.

We also objected to the provisions of Title III.

My concern has been fully expressed in the record.  
However, it is my judgment that the President should  
not veto the bill which has other desirable features in  
Title I and Title II. The issues do not rise to the  
level of importance of a veto action.

  
Stephen S. Gardner

Attachment



# FEDERAL HOME LOAN BANK BOARD

WASHINGTON, D. C. 20552

320 FIRST STREET N.W.

FEDERAL HOME LOAN BANK  
SYSTEM  
FEDERAL HOME LOAN  
MORTGAGE CORPORATION  
FEDERAL SAVINGS & LOAN  
INSURANCE CORPORATION

OFFICE OF  
GENERAL COUNSEL

December 23, 1975

James M. Frey  
Assistant Director for Legislative  
Reference  
Office of Management and Budget  
Washington, D. C. 20503

Dear Mr. Frey:

This is in response to your Enrolled Bill Request of December 19, 1975, concerning S. 1281, an Act to extend the authority for flexible regulation of interest rates on deposits and share accounts in depository institutions, to extend the National Commission on Electronic Fund Transfers, and to provide for home mortgage disclosure.

Title I of the Bill provides for an extension of rate control authority until March 1, 1977 and requires that the interest rate differential for any category of deposits or accounts which is in effect on December 10, 1975 between (1) banks insured by the Federal Deposit Insurance Corporation and (2) institutions insured by the Federal Savings and Loan Insurance Corporation and mutual savings banks as defined in section 3(f) of the Federal Deposit Insurance Act may not be eliminated or reduced without the concurrence of Congress.

Title II provides that the interim and final reports of the National Commission on Electronic Fund Transfers be submitted within one and two years, respectively, from the date of the confirmation by the Senate of the Chairperson or of the appointment by the President of an acting Chairperson.

Title III, the Home Mortgage Disclosure Act of 1975, establishes procedures for compiling and making public information regarding the mortgage lending of depository institutions having a home or branch office located within a standard metropolitan statistical area. Pursuant to any necessary regulations promulgated by the Board of Governors of the Federal Reserve System the Act requires such institutions to clearly and conspicuously disclose by census tracts, where readily available at a reasonable cost, or otherwise by Zip code, the number and total dollar amount of residential mortgage and home improvement loans originated



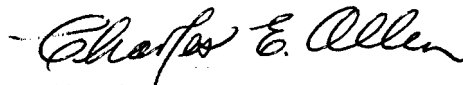
James M. Frey  
Page Two

or purchased during the fiscal year immediately preceding the effective date of Title III of the Act. These disclosures are to be made available at the home office of such institutions and at least one branch office within each standard metropolitan statistical area in which such institutions have an office. Additionally, the Act makes provisions for studies to be undertaken under the auspices of the Board regarding the feasibility of requiring depository institutions outside of standard metropolitan statistical areas to be subject to the Act and for the Board to develop, or assist in the improvement of, methods of matching addresses and census tracts to facilitate compliance with the Act. Finally, the Act provides for an effective date one hundred eighty days after enactment and exempts from the Act depository institutions having total assets of ten million dollars or less.

The Board supports the amended version currently enrolled. We recognize the importance of continued interest rate control and the creation of a mechanism for Congressional review of agency decisions to eliminate or reduce rate differentials. Both measures will importantly help to insure the economic stability of institutions subject to the Board's jurisdiction. Furthermore, the field of electronic fund transfers is complex and will require detailed study. We thus support the granting of an extension of time to the National Commission to enable it to prepare reports. Finally, the Board supports Title III, as amended. Although we have reservations regarding the use of census tracts rather than Zip codes as the index, the qualification as to use of census tracts only when readily available at reasonable cost lessens our objections. Additionally, the Board is willing to assist in meeting the objectives of the Act by developing improved methods of matching addresses and census tracts and by studying the feasibility and usefulness of extending the Act to depository institutions not located within standard metropolitan statistical areas.

Thus, in conclusion, the Board supports enactment of Enrolled Bill S. 1281.

Sincerely,



Charles E. Allen  
General Counsel



NATIONAL CREDIT UNION ADMINISTRATION  
Washington, D.C. 20456

Office of General Counsel

December 23, 1975

Mr. James Frey  
Assistant Director for  
Legislative Reference  
Office of Management and Budget  
Washington, D.C. 20503

Dear Mr. Frey:

This is in response to your request for comments on the enrolled bill S.1281.

This Administration has no objection to its approval.

The estimated additional costs to NCUA for the enforcement provisions of Sec. 305(b)(3) are \$25,000 per year. These costs result from the requirement that NCUA enforce the disclosure requirements of Title III on all state chartered credit unions as well as Federal credit unions.

Sincerely yours,

A handwritten signature in cursive script that reads "John L. Ostby".

JOHN L. OSTBY  
General Counsel



THE GENERAL COUNSEL OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D. C. 20410

DEC 24 1975

Mr. James M. Frey  
Assistant Director for  
Legislative Reference  
Office of Management and Budget  
Washington, D. C. 20503

Attention: Ms. Martha Ramsey

Dear Mr. Frey:

Subject: S. 1281, 94th Congress  
Enrolled Enactment

This is in response to your request for the views of this Department on the enrolled enactment of S. 1281, a bill "To extend the authority for the flexible regulation of interest rates on deposits and share accounts in depository institutions, to extend the National Commission on Electronic Fund Transfers, and to provide for home mortgage disclosure."

S. 1281 contains three titles. Section 101 of title I would extend until March 1, 1977 the authority by which the Federal financial regulatory agencies establish (under Regulation Q) interest rate ceilings on deposits in financial institutions under their respective jurisdictions. Section 102 would prohibit Federal financial regulatory agencies from eliminating or reducing an interest rate differential in effect on December 10, 1975 for any category of deposits or accounts between any bank (other than a savings bank) insured by the FDIC and any thrift institution, unless written notification is given to the Congress by the Board of Governors of the Federal Reserve System and both Houses of Congress approve the proposed action by concurrent resolution. Where a reduction or elimination of the differential is permitted, the interest rate established for the category of deposits affected for such FDIC-insured banks could not exceed the highest rate of interest which thrift institutions were permitted to charge for those deposits immediately prior to the reduction or elimination.

Title II of the enrolled bill would amend title II of the Act of October 28, 1974 (P.L. 93-495) to provide that interim and final reports of the National Commission on Electronic Fund Transfers be submitted within one and two years, respectively, from the date of the confirmation by the Senate of the Chairperson or the appointment by the President of an acting Chairperson.

Title III is disclosure legislation, requiring depository institutions to make available to the public information on the amounts, types and locations of their residential mortgage loan activities. Specifically, title III would require each depository institution which has a home or branch office in a standard metropolitan statistical area (SMSA) and assets over \$10 million to make public the number and total dollar amount of mortgage loans which were originated or purchased during each fiscal year by the offices of that institution which are located within the SMSA. These data would have to be broken down according to whether the property securing the mortgage loan is located within or without that SMSA and, in the case of mortgages covering property within the SMSA, would have to be itemized by borrowers' census tracts (where readily available at a reasonable cost), otherwise by ZIP codes. In addition, all mortgage loan information would have to indicate the number and amount of home improvement loans, as well as mortgage loans covering federally insured or guaranteed properties and properties in which the mortgagor did not intend to reside at the time of the execution of the mortgage. A depository institution would be required to make this information available to the public for fiscal years beginning with its last full fiscal year which ends within 180 days of the enrolled bill's enactment. These data would have to be maintained for a period of six years at the institution's home office and at least one branch office within the SMSA in which the institution has offices.

Title III would be administered by the Federal Reserve Board. Federal financial regulatory agencies would have enforcement responsibilities with respect to depository institutions within their respective jurisdictions. Compliance with the title's requirements by nonfederally insured institutions would be enforced by the Federal Deposit Insurance Corporation. The

Federal Reserve Board, in consultation with this Department, would be required to conduct a study of the feasibility and utility of requiring depository institutions located outside SMSAs to make disclosures comparable to those contemplated by the enrolled bill.

This Department has no serious objection to the provisions of titles I and II of the enrolled bill. We would, however, defer to Federal entities which may be more directly affected by and have a greater interest in these provisions with respect to the desirability of their enactment.

The mortgage disclosure provisions of title III are designed to provide data respecting the mortgage loan activities of depository institutions in order to give neighborhood residents and local public officials more complete information to use in guiding their relationship with such institutions and in formulating neighborhood preservation strategies.

It is commonly recognized that lack of availability of mortgage credit is frequently associated with physical, economic and social decline in a particular neighborhood. While it would be a mistake to overemphasize the results which disclosure of lending patterns alone can produce, such disclosure, if it can feasibly be focused upon particular areas, could be useful in helping guide local public officials in identifying areas which lenders rightly or wrongly have determined to involve unacceptable investment risks. Viewed in this way, title III could provide a useful complement to the neighborhood preservation efforts currently being carried out at the Federal, State and local levels.

We do, however, have two specific reservations with respect to title III.

First, the title's findings seem to reflect an assumption that lenders have lending obligations which vary in a specific manner according to their pattern of deposits. While all lenders should be expected to play a constructive role in their communities and should not arbitrarily deny mortgage credit within any particular neighborhoods, lending institutions have fiduciary obligations towards their depositors which require



that they exercise prudence and sound judgment in the investment of funds. Lenders cannot, consistent with this obligation, ignore locational factors affecting long-term values and loan security solely because of the amount or number of deposits received from a given neighborhood. Further, should any specific relationship be expected or required between deposits and investments, the probable effect would be to afford a relative advantage to those institutions which make the least effort to provide savings facilities or other financial services convenient to savers in older, declining neighborhoods and to discourage location in such neighborhoods.

Second, the disclosure provisions of title III would not, as we understand them, apply to mortgage companies, even though they are a significant source of mortgage credit -- particularly in the case of FHA insured loans. Failure to require reporting by these concerns would greatly restrict the usefulness of the reporting provisions in view of the importance of FHA insured lending in central city areas.

We do not, however, consider these reservations to be of such great magnitude as to outweigh the advantages of the disclosure which title III would require.

While we defer to other Federal entities with respect to the advisability of titles I and II, we recommend approval of the enrolled enactment from the standpoint of title III for the reasons set forth above.

Sincerely,




Robert R. Elliott

THE CHAIRMAN OF THE  
COUNCIL OF ECONOMIC ADVISERS  
WASHINGTON

December 24, 1975

MEMORANDUM FOR JAMES FREY

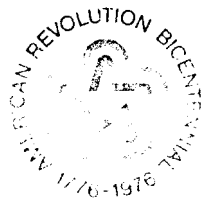
From: Alan Greenspan 

This is in response to your request for the views of the Council on S. 1281.

Extending regulation Q to March 1977 weakens pressures to consider financial reform before the election. In all probability financial reform would therefore be dead for the remainder of this term.

The Act further countervenes the objectives of this Administration by adding a whole new set of burdensome regulations. Depository institutions with assets over \$10 million (that is, practically all of them) would be required "to compile and make easily accessible for public inspection the number and dollar value of mortgage and home improvement loans which were originated or purchased during the institution's fiscal year." While this requirement is harmless, the further requirement that loan disclosure information identify the location of the mortgaged property (by census tract or zip code area) is preposterous since it is asking for pressures to engage in unsound lending practices. The notion that saving dollars are to be returned to the areas of origin in the form of loans clearly implies that an efficient capital market is undesirable and that allocation of credit by political group pressures is superior. Should lending institutions fail by having surrendered to such pressures, the Federal government would be held accountable.

The Council is strongly opposed to this bill and recommends a Presidential veto.



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

DEC 26 1975

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill S. 1281 - Depository institutions  
Sponsor - Sen. Proxmire (D) Wis., Sen. Brooke (R)  
Mass. and Sen. Stevenson (D) Ill.

Last Day for Action

December 31, 1975 - Wednesday

Purpose

To extend the authority of Federal financial regulatory agencies to regulate interest rates on deposits; to extend the life of the National Commission on Electronic Fund Transfers, and to require financial institutions to disclose by geographic area the number and dollar amount of home mortgage loans.


Agency Recommendations

Office of Management and Budget	Approval (Signing Statement attached)
Department of Housing and Urban Development	Approval
Federal Deposit Insurance Corporation	Approval (Informally)
Federal Home Loan Bank Board	Approval
Department of the Treasury	No objection
National Credit Union Administration	No objection
Federal Reserve Board	No objection (Informally)
Department of Justice	No objection (Informally)
Council of Economic Advisers	Disapproval
Council on Wage and Price Stability	Disapproval (Informally)

Discussion

The enrolled bill consists of three separate titles which correspond to the three purposes listed above.

To: J. Cooney  
12-29-75  
4:30 p.m.



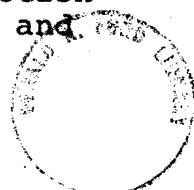
Title I extends to March 1, 1977, the authority (popularly known as "Regulation Q") by which the various Federal financial regulatory agencies set interest rate ceilings on deposits in the financial institutions under their respective jurisdictions. Without this legislation, the authority would lapse December 31, 1975.

Regulation Q has held down the amount of funds in financial institutions by limiting the interest rates they can offer savers. It has also been used to insure that savings (thrift) institutions, whose assets are mostly long term mortgages, can continue to attract funds by offering higher interest rates than commercial banks, whose loans and deposits tend to be shorter in maturity. Under existing law, financial regulatory agencies are able to adjust the interest differential between these two types of depository institutions administratively. This differential has been one quarter of a percent since 1973.

Title I of S. 1281, however, would permit the elimination or reduction of the existing quarter point interest rate differential but only after the approval of Congress had been given in a concurrent resolution, in effect a "legislative veto." The title further provides that where the differential is lessened or eliminated for any category of account, the interest rate established for commercial banks could be no higher than the rate previously established for thrift institutions.

Previous extensions of Regulation Q have been routine, but this year the Administration opposed the continuation of interest rate ceilings and differentials. This opposition was based on substantive arguments against arbitrary ceilings and on the Administration's desire to get the Congress to focus on the Financial Institutions Act (FIA) (S. 1267), a major part of your regulatory reform program. That legislation would gradually phase out Regulation Q over five and a half years and permit all financial institutions greater freedom to offer a variety of loans and services and to pay competitive, rather than regulated, rates of interest to all depositors. The Senate passed the FIA on December 11, but the House has only begun hearings.

When it became clear that some action was necessary before year end, the Administration requested a simple six-month extension of the present Regulation Q authorities. The enrolled bill extends the regulation for 15 months. Although it does not, per se, mandate an interest rate differential, by setting up a new "legislative veto" obstacle, the bill makes the reduction or elimination of the existing differential very difficult and problematic.



Although the Administration would have preferred a shorter extension, the affected agencies and we believe that the problems posed by the extension of Regulation Q, the maintenance of the interest rate differential, and the legislative veto provision are not of sufficient magnitude to warrant withholding approval. We will continue to push for Congressional enactment of the Financial Institutions Act prior to March 1977.

Title II authorizes the extension of the National Commission on Electronic Fund Transfers by providing that the interim and final reports of the Commission be submitted within one and two years, respectively, from the date of Senate confirmation of the Commission's chairperson rather than from the date the Commission was established in October 1974. The Commission has the responsibility to study the impact of the emerging electronic fund transfer technology on the nation's banking industry. On October 6, 1975, you nominated Mr. William Widnall to be chairperson of the Commission and he was confirmed on October 29, 1975.

Title III, which at one time was a separate bill, is cited as the Home Mortgage Disclosure Act of 1975. The intent of this title is to allow individuals and public officials to detect discriminatory practices in the granting of home mortgages based upon geographic factors (commonly known as "redlining"). The title contains the disclaimer that it is not intended to encourage unsound lending practices or the allocation of credit. Depository institutions operating within a standard metropolitan statistical area (SMSA) and with assets over \$10 million would be required to compile and make easily accessible for public inspection the number and dollar value of mortgage and home improvement loans which were originated or purchased during the institution's last fiscal year. Loan disclosure information would have to be itemized by

- census tracts (or, if this is impracticable, by zip code) for loans secured by property within the SMSA;
- Federally insured or guaranteed loans; and
- non-owner occupant mortgagors.

The above information would have to be maintained and publicly available for five years.

Regulations would be prescribed by the Federal Reserve Board (FRB) and enforcement would be the responsibility of the cognizant Federal financial regulatory agency, including the Federal Deposit Insurance Corporation (FDIC), the FRB, the Comptroller of the Currency, the Federal Home Loan Bank Board (FHLBB), the Federal Savings and Loan Insurance Corporation and the National Credit Union Administration (NCUA). This authority would take precedence over inconsistent State law, as determined by the FRB, but would not exempt any State-chartered institution from compliance with the State's recordkeeping and disclosure laws. The FRB may exempt State-chartered institutions where State law is substantially equal, in effect and compliance, to this authority.

The FHLBB would be required

- to develop, in consultation with the Bureau of the Census and other Federal financial regulatory agencies, methods for matching addresses and census tracts, in order to facilitate compliance by depository institutions with this title;
- to contract for assistance; and
- to recommend to the Senate and House Banking Committees such additional legislation as the Board deems appropriate to carry out this title.

The FRB, in consultation with the Secretary of Housing and Urban Development, is directed to conduct a study of, and to report to the Congress within three years on the question of whether depository institutions located outside SMSA's should be subject to the disclosure provisions of this title. To carry out the above cited responsibilities of the FHLBB, the bill authorizes the appropriation of such sums as may be necessary. The effective date and the expiration date of this title are, respectively, 180 days and four years after the date of enactment.

The issues raised in Title III are quite complex and highly controversial. The legislation received Congressional support in part because a number of well documented studies in major cities have shown that, prima facie, "redlining" does occur. While the practice violates regulations of the FHLBB, it is difficult to prove in fact because lending institutions must take into account a number of factors before making a loan and it is difficult to determine which one is most significant.

Thus proponents of this bill have argued that disclosure is the only feasible means of revealing a pattern of possible discriminatory practices and discouraging their continuation.

The Administration has repeatedly opposed Title III, noting that the enactment of this measure would impose an additional Federal reporting burden upon depository institutions by requiring them to compile, match and array loan information by census tract. In addition, Administration officials have expressed the concern that this new disclosure requirement could be the precursor to credit allocation laws, notwithstanding the disclaimer of credit allocation contained in the title. Industry sources testified that these additional reports would further complicate their paperwork burden and lead to higher operating and lending costs, although the extent of additional costs was disputed by proponents of this legislation.

Several States have recently enacted similar disclosure requirements, but it is too early to tell whether or not the information obtained has produced any real benefit. It may in fact be more misleading than meaningful, because the information disclosed will reveal what has happened but not necessarily why. The availability of mortgage funds and the desire to avert risky investments will always influence financial institutions' willingness to lend money on the collateral of inner-city real estate, independent of the racial or ethnic character of the neighborhood.

The majority of agencies recommend approval or have registered no objection; however, the Council on Wage and Price Stability and the Council of Economic Advisers are opposed.

Your signature on this bill may be interpreted as acquiescence to further Federal incursions into the private sector and the further proliferation of unnecessary paperwork. However, we recommend that you do not withhold approval of the bill for the following reasons. We have been advised informally by Treasury officials that a veto would seriously jeopardize the Administration's chances for passage of the Financial Institutions Act. Further, a number of the most objectionable features of Title III have been watered down or removed in conference, and these requirements will be imposed only temporarily (four years) pending further studies and experience.

If you approve the bill, we suggest that you issue a statement explaining your concerns about Title III and indicating that if the consequences become too burdensome, you will transmit amending legislation. A proposed signing statement is attached.

*James M. Frey*

Assistant Director  
for Legislative Reference

Enclosures



STATEMENT BY THE PRESIDENT

I am signing into law today S. 1281. Title I extends until March 1, 1977, the authority of various Federal agencies to regulate interest rates on certain savings deposits. Title II extends the authorization of the National Commission on Electronic Fund Transfers for two years beyond the confirmation date of its Chairperson. I support these two measures. However, I have major reservations about the appropriateness of Title III.

This third title will require all financial institutions with over \$10 million in assets which operate in standard metropolitan statistical areas (SMSA) to comply with a major new program of Federal regulations. The language will force all depository institutions meeting these criteria to compile, and make available for public inspection, lists of all their mortgage and home improvement loans, by census tract or zip code. This Federal law will be enforced by several Federal regulatory agencies (the Federal Reserve Board, Federal Home Loan Bank Board and others) and will supersede any inconsistent State law. The Federal Reserve Board will have authority to exempt State chartered institutions if it determines that they have sufficiently similar disclosure and enforcement programs.

This title attempts to deal with a problem that has been recognized and studied for many years. Mortgage and home improvement funds have often been scarce or unavailable for parts of large urban areas where unemployment has historically been high, where the housing stock is old and deteriorating, and where credit risks have been determined by many private lenders to be too high to justify the interest rates which can be levied on a loan, rates for which are often controlled by government mandated ceilings.

I strongly believe, as do most people, that discrimination on racial or ethnic grounds is a practice which is abhorrent to our American way of life. Our Constitution grants equal liberties to all citizens. Federal, State, and local laws expressly prohibit discriminatory practices. And our courts have continued to uphold the principle that a strong and free Nation is one which can, and must, protect any individual's civil rights, regardless of race or religion.

This bill attempts to prevent such discrimination, but it is not at all clear that it can. Unless very carefully administered, it will usher in a burdensome and costly requirement for additional recordkeeping and paperwork. Washington will again be dictating to States and cities how they should enforce laws. And it will be placing yet another questionable requirement on the private sector -- a requirement whose costs will be great and which may do little or nothing to end the practice of credit discrimination against those living in certain neighborhoods.

This provision also poses another risk to our system of private enterprise. Though the bill's supporters vigorously claim that this is not intended in any way to force financial institutions to allocate capital, there is a real danger here that such a system of recordkeeping and reporting could quickly lead to further controls. Too often our free market economy has been tampered with by governments seeking noble objectives, but we have only to look at the consequences of government interference and regulation to appreciate how often those worthy ideals have become distorted in the cumbersome application of government fiat.

Our capital markets have grown and helped to make our economy strong largely because capital -- whether for housing, industry, consumer purchases, etc. -- has been directed toward the most efficient and credit worthy endeavors. And my

Administration is seeking to improve and strengthen the mechanisms used for raising and investing capital -- particularly for housing. I have urged Congress to enact the Administration's Financial Institutions Act of 1975, (S. 1267) a bill which will permit banks and other thrift organizations to offer competitive yields on savings deposits and a wider range of services to customers and homebuyers. This legislation will offer new incentives to all mortgage lenders, and should help bring new sources of funds into the housing markets of our country.

In addition, the Federal Government has created a number of programs designed specifically to improve the conditions of low and moderate income housing. However, I strongly doubt that achievement of this objective will be furthered by subjecting lending institutions to unwarranted pressure to match up their loans and deposits on the basis of arbitrary geographic boundaries.

I trust that the agencies administering Title III of this bill will carefully assess the costs and benefits to both the lenders and borrowers. I note that this legislation will have a four-year duration. If, within that period, undue burdens result from the implementation of this program, I shall not hesitate to recommend amending legislation.

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

*AW*

LOG NO.: 1487

RETURN TO RESEARCH ROOM 128

Date: December 29

Time: 5:00pm

FOR ACTION: ~~Tod Hunter~~ **DEC 30 PM 12 15** cc (for information): Jack Marsh  
 Paul Leach Jim Cavanaugh  
 Lynn May Paul ~~Theis~~ Warren Hendriks  
 Max Friedersdorf  
 Ken Lazarus

FROM THE STAFF SECRETARY

DUE: Date: December 30

Time: 200pm

SUBJECT:

S. 1281 - Depository Institutions

ACTION REQUESTED:

- |   |   |
|---|---|
| <input type="checkbox"/> For Necessary Action         | <input type="checkbox"/> For Your Recommendations |
| <input type="checkbox"/> Prepare Agenda and Brief     | <input type="checkbox"/> Draft Reply              |
| <input checked="" type="checkbox"/> For Your Comments | <input type="checkbox"/> Draft Remarks            |

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

**PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.**

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

*[Faint stamp]*

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

DEC 26 1975

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill S. 1281 - Depository institutions  
Sponsor - Sen. Proxmire (D) Wis., Sen. Brooke (R)  
Mass. and Sen. Stevenson (D) Ill.

Last Day for Action

December 31, 1975 - Wednesday

Purpose

To extend the authority of Federal financial regulatory agencies to regulate interest rates on deposits; to extend the life of the National Commission on Electronic Fund Transfers; and to require financial institutions to disclose by geographic area the number and dollar amount of home mortgage loans.

Agency Recommendations

Office of Management and Budget

Approval (Signing  
Statement attached)

Department of Housing and Urban  
Development

Approval

Federal Deposit Insurance Corporation

Approval (Informally)

Federal Home Loan Bank Board

Approval

Department of the Treasury

No objection

National Credit Union Administration

No objection

Federal Reserve Board

No objection (Informally)

Department of Justice

No objection (Informally)

Council of Economic Advisers

Disapproval

Council on Wage and Price Stability

Disapproval (Informally)

Discussion

The enrolled bill consists of three separate titles which correspond to the three purposes listed above.

Title I extends to March 1, 1977, the authority (popularly known as "Regulation Q") by which the various Federal financial regulatory agencies set interest rate ceilings on deposits in the financial institutions under their respective jurisdictions. Without this legislation, the authority would lapse December 31, 1975.

Regulation Q has held down the amount of funds in financial institutions by limiting the interest rates they can offer savers. It has also been used to insure that savings (thrift) institutions, whose assets are mostly long term mortgages, can continue to attract funds by offering higher interest rates than commercial banks, whose loans and deposits tend to be shorter in maturity. Under existing law, financial regulatory agencies are able to adjust the interest differential between these two types of depository institutions administratively. This differential has been one quarter of a percent since 1973.

Title I of S. 1281, however, would permit the elimination or reduction of the existing quarter point interest rate differential but only after the approval of Congress had been given in a concurrent resolution, in effect a "legislative veto." The title further provides that where the differential is lessened or eliminated for any category of account, the interest rate established for commercial banks could be no higher than the rate previously established for thrift institutions.

Previous extensions of Regulation Q have been routine, but this year the Administration opposed the continuation of interest rate ceilings and differentials. This opposition was based on substantive arguments against arbitrary ceilings and on the Administration's desire to get the Congress to focus on the Financial Institutions Act (FIA) (S. 1267), a major part of your regulatory reform program. That legislation would gradually phase out Regulation Q over five and a half years and permit all financial institutions greater freedom to offer a variety of loans and services and to pay competitive, rather than regulated, rates of interest to all depositors. The Senate passed the FIA on December 11, but the House has only begun hearings.

When it became clear that some action was necessary before year end, the Administration requested a simple six-month extension of the present Regulation Q authorities. The enrolled bill extends the regulation for 15 months. Although it does not, per se, mandate an interest rate differential, by setting up a new "legislative veto" obstacle, the bill makes the reduction or elimination of the existing differential very difficult and problematic.

Although the Administration would have preferred a shorter extension, the affected agencies and we believe that the problems posed by the extension of Regulation Q, the maintenance of the interest rate differential, and the legislative veto provision are not of sufficient magnitude to warrant withholding approval. We will continue to push for Congressional enactment of the Financial Institutions Act prior to March 1977.

Title II authorizes the extension of the National Commission on Electronic Fund Transfers by providing that the interim and final reports of the Commission be submitted within one and two years, respectively, from the date of Senate confirmation of the Commission's chairperson rather than from the date the Commission was established in October 1974. The Commission has the responsibility to study the impact of the emerging electronic fund transfer technology on the nation's banking industry. On October 6, 1975, you nominated Mr. William Widnall to be chairperson of the Commission and he was confirmed on October 29, 1975.

Title III, which at one time was a separate bill, is cited as the Home Mortgage Disclosure Act of 1975. The intent of this title is to allow individuals and public officials to detect discriminatory practices in the granting of home mortgages based upon geographic factors (commonly known as "redlining"). The title contains the disclaimer that it is not intended to encourage unsound lending practices or the allocation of credit. Depository institutions operating within a standard metropolitan statistical area (SMSA) and with assets over \$10 million would be required to compile and make easily accessible for public inspection the number and dollar value of mortgage and home improvement loans which were originated or purchased during the institution's last fiscal year. Loan disclosure information would have to be itemized by

- census tracts (or, if this is impracticable, by zip code) for loans secured by property within the SMSA;
- Federally insured or guaranteed loans; and
- non-owner occupant mortgagors.

The above information would have to be maintained and publicly available for five years.

Regulations would be prescribed by the Federal Reserve Board (FRB) and enforcement would be the responsibility of the cognizant Federal financial regulatory agency, including the Federal Deposit Insurance Corporation (FDIC), the FRB, the Comptroller of the Currency, the Federal Home Loan Bank Board (FHLBB), the Federal Savings and Loan Insurance Corporation and the National Credit Union Administration (NCUA). This authority would take precedence over inconsistent State law, as determined by the FRB, but would not exempt any State-chartered institution from compliance with the State's recordkeeping and disclosure laws. The FRB may exempt State-chartered institutions where State law is substantially equal, in effect and compliance, to this authority.

The FHLBB would be required

- to develop, in consultation with the Bureau of the Census and other Federal financial regulatory agencies, methods for matching addresses and census tracts, in order to facilitate compliance by depository institutions with this title;
- to contract for assistance; and
- to recommend to the Senate and House Banking Committees such additional legislation as the Board deems appropriate to carry out this title.

The FRB, in consultation with the Secretary of Housing and Urban Development, is directed to conduct a study of, and to report to the Congress within three years on the question of whether depository institutions located outside SMSA's should be subject to the disclosure provisions of this title. To carry out the above cited responsibilities of the FHLBB, the bill authorizes the appropriation of such sums as may be necessary. The effective date and the expiration date of this title are, respectively, 180 days and four years after the date of enactment.

The issues raised in Title III are quite complex and highly controversial. The legislation received Congressional support in part because a number of well documented studies in major cities have shown that, prima facie, "redlining" does occur. While the practice violates regulations of the FHLBB, it is difficult to prove in fact because lending institutions must take into account a number of factors before making a loan and it is difficult to determine which one is most significant.





Thus proponents of this bill have argued that disclosure is the only feasible means of revealing a pattern of possible discriminatory practices and discouraging their continuation.

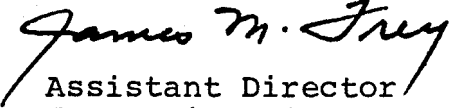
The Administration has repeatedly opposed Title III, noting that the enactment of this measure would impose an additional Federal reporting burden upon depository institutions by requiring them to compile, match and array loan information by census tract. In addition, Administration officials have expressed the concern that this new disclosure requirement could be the precursor to credit allocation laws, notwithstanding the disclaimer of credit allocation contained in the title. Industry sources testified that these additional reports would further complicate their paperwork burden and lead to higher operating and lending costs, although the extent of additional costs was disputed by proponents of this legislation.

Several States have recently enacted similar disclosure requirements, but it is too early to tell whether or not the information obtained has produced any real benefit. It may in fact be more misleading than meaningful, because the information disclosed will reveal what has happened but not necessarily why. The availability of mortgage funds and the desire to avert risky investments will always influence financial institutions' willingness to lend money on the collateral of inner-city real estate, independent of the racial or ethnic character of the neighborhood.

The majority of agencies recommend approval or have registered no objection; however, the Council on Wage and Price Stability and the Council of Economic Advisers are opposed.

Your signature on this bill may be interpreted as acquiescence to further Federal incursions into the private sector and the further proliferation of unnecessary paperwork. However, we recommend that you do not withhold approval of the bill for the following reasons. We have been advised informally by Treasury officials that a veto would seriously jeopardize the Administration's chances for passage of the Financial Institutions Act. Further, a number of the most objectionable features of Title III have been watered down or removed in conference, and these requirements will be imposed only temporarily (four years) pending further studies and experience.

If you approve the bill, we suggest that you issue a statement explaining your concerns about Title III and indicating that if the consequences become too burdensome, you will transmit amending legislation. A proposed signing statement is attached.

  
Assistant Director  
for Legislative Reference

Enclosures

RRR

I am signing into law today S. 1281. Title I extends until March 1, 1977, the authority of various Federal agencies to regulate interest rates on certain savings deposits. Title II extends the authorization of the National Commission on <sup>on</sup> Electronic Fund Transfers for two years beyond the confirmation date of its Chairperson. I support these two measures. However, I have major reservations about the appropriateness of Title III.

This third title will require all financial institutions with ~~over~~ <sup>more than</sup> \$10 million in assets which operate in standard metropolitan statistical areas (SMSA) to comply with a major new program of Federal regulations. The language will force all depository institutions meeting these criteria to compile, and make available for public inspection, lists of all their mortgage and home improvement loans, by census tract or zip code. This Federal law will be enforced by several Federal regulatory agencies (the Federal Reserve Board, Federal Home Loan Bank Board and others) and will supersede any inconsistent State law. The Federal Reserve Board will have authority to exempt State chartered institutions if it determines that they have sufficiently similar disclosure and enforcement programs.

This title attempts to deal with a problem that has been recognized and studied for many years. Mortgage and home improvement funds have often been scarce or unavailable for parts of large urban areas where unemployment has historically been high, where the housing stock is old and deteriorating, and where credit risks have been determined by many private lenders to be too high to justify the interest rates which can

*be levied on a loan, rates for which are often controlled by Government-mandated ceilings.*

... after controlled by

I strongly believe, as do most people, that discrimination on racial or ethnic grounds is a practice which is abhorrent to our American way of life. Our Constitution grants equal liberties to all citizens. Federal, State, and local laws expressly prohibit discriminatory practices. And our courts have continued to uphold the principle that a strong and free Nation is one which can, and must, protect any individual's civil rights, regardless of race or religion.

This bill attempts to prevent such discrimination, but it is not at all clear that it can. Unless very carefully administered, it will usher in a burdensome and costly requirement for additional recordkeeping and paperwork. Washington will again be dictating to States and cities how they should enforce laws. <sup>IN DETAIL AND IN A COORDINATED MANNER.</sup> And it will be placing yet another questionable requirement on the private sector -- a requirement whose costs will be great and which may do little or nothing to end the practice of credit discrimination against those living in certain neighborhoods.

This provision also poses another risk to our system of private enterprise. Though the bill's supporters vigorously claim that this is not intended in any way to force financial institutions to allocate capital, there is a real danger here that such a system of recordkeeping and reporting could quickly lead to further controls. Too often, our free market economy has been tampered with by governments seeking noble objectives, but we have only to look at the consequences of government interference and regulation to appreciate how often those worthy ideals have become distorted in the cumbersome application of government fiat.

Our capital markets have grown and helped to make our economy strong largely because capital -- whether for housing, industry, consumer purchases, ~~or~~ <sup>or other purposes</sup> -- has been directed toward the most efficient and credit worthy endeavors. And my

Administration is seeking to improve and strengthen the mechanisms used for raising and investing capital -- particularly for housing. I have urged <sup>the</sup> Congress to enact the Administration's Financial Institutions Act of 1975, (S. 1267) <sup>ok</sup> a bill which will permit banks and other thrift organizations to offer competitive yields on savings deposits and a wider range of services to customers and homebuyers. This legislation will offer new incentives to all mortgage lenders, and should help bring new sources of funds into the housing markets of our country.

In addition, the Federal Government has created a number of programs designed specifically to improve the conditions of low and moderate income housing. However, I strongly doubt that achievement of this objective will be furthered by subjecting lending institutions to unwarranted pressure to match up their loans and deposits on the basis of arbitrary geographic boundaries.

I trust that the agencies administering Title III of this bill will carefully assess the costs and benefits to both the lenders and borrowers. I note that this legislation will have a four-year duration. If, within that period, undue burdens result from the implementation of this program, I shall not hesitate to recommend amending legislation.

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.: 1487

Date: December 29

Time: 5:00pm

FOR ACTION: Tod Hullin

cc (for information): Jack Marsh

Paul Leach

Jim Cavanaugh

Lynn May *ok for title II* Paul Theis

Warren Hendriks

Max Friedersdorf *sign*

Ken Lazarus *ok*

FROM THE STAFF SECRETARY *Bill Seidman*

DUE: Date: December 30

Time: 200pm

SUBJECT:

S. 1281 - Depository Institutions

ACTION REQUESTED:

For Necessary Action

For Your Recommendations

Prepare Agenda and Brief

Draft Reply

For Your Comments

Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

K. R. COLE, JR.  
For the President



*Sullivan*

Date: December 29

Time: 5:00pm  
555

FOR ACTION: *Bill Seedman*  
Tod Hullin  
Paul Leach  
Lynn May  
Max Friedersdorf  
Ken Lazarus

cc (for information): Jack Marsh  
Jim Cavanaugh  
Warren Hendriks

FROM THE STAFF SECRETARY

DUE Date: December 30

Time: 200pm *6:00 PM*

SUBJECT:

S. 1281 - Depository Institutions

ACTION REQUESTED:

- For Necessary Action
- For Your Recommendations
- Prepare Agenda and Brief
- Draft Reply
- For Your Comments
- Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

*Approved  
for*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

K. R. COLE, JR.  
For the President

THE WHITE HOUSE

WASHINGTON

December 30, 1975

MEMORANDUM FOR: JUDY JOHNSTON

FROM: DUDLEY CHAPMAN *DC*

SUBJECT: Depository Institutions

I recommend signing, but find the proposed signing statement much too long. I would recommend deletion beginning with the third paragraph on page 2 (beginning "This provision . . . .") through the end of page 3.



THE WHITE HOUSE  
WASHINGTON

December 30, 1975

MEMORANDUM FOR: JIM CAVANAUGH  
FROM: MAX L. FRIEDERSDORF *ml.f.*  
SUBJECT: S. 1281 - Depository Institutions

The Office of Legislative Affairs concurs with the agencies that the bill be signed.

Attachments

orig. 12/31/75

ACTION

THE WHITE HOUSE

WASHINGTON  
December 31, 1975

Last Day: December 31

MEMORANDUM FOR THE PRESIDENT  
FROM: JIM CANNON  
SUBJECT: S. 1281 - Depository Institutions

Attached for your consideration is S. 1281, sponsored by Senators Proxmire, Stevenson and Brooke, which would:

- Extend the authority of Federal financial regulatory agencies to regulate interest rates on deposits until March 1, 1977. (Title I)
- Extend the life of the National Commission on Electronic Fund Transfers to provide that the interim and final reports of the Commission be submitted within one and two years, respectively from the date of Senate confirmation of the chairperson rather from the date the Commission was established. (Title II)
- Require financial institutions to disclose by geographic area the number and dollar amount of home mortgage loans. (Title III)

Title III of the enrolled bill is intended to allow individuals and public officials to detect discriminatory geographic factors. The Administration has repeatedly opposed Title III because it would impose an additional Federal reporting burden upon depository institutions by requiring them to compile, match and array loan information by census tract. The Council on Wage and Price Stability and CEA recommend disapproval of the enrolled bill due to this title.

OMB shares the concerns of CEA and the Council on Wage and Price Stability but has been informally advised that a veto would seriously jeopardize chances for passage of the Financial Institutions Act, the most objectionable features of the Title have been watered down, and the requirements will be imposed only for a period of four years pending further studies and experience.

Additional background information is provided in OMB's enrolled bill report at Tab A.

OMB, Max Friedersdorf, Bill Seidman, Counsel's Office (Lazarus) and I recommend approval of the enrolled bill and issuance of the attached signing statement explaining your concerns about Title III. The statement has been cleared by Paul Theis.

RECOMMENDATION

That you sign S. 1281 at Tab B.

That you approve the signing statement at Tab C.

Approve



Disapprove \_\_\_\_\_



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET

DATE: 1-6-76

TO: Bob Linder

FROM: Jim Frey

Attached is the COWPS views  
letter on S. 1281 for inclusion  
in the enrolled bill file.

**OMB FORM 38**  
REV AUG 73

EXECUTIVE OFFICE OF THE PRESIDENT  
COUNCIL ON WAGE AND PRICE STABILITY  
726 JACKSON PLACE, N.W.  
WASHINGTON, D.C. 20506

January 2, 1976

MEMORANDUM TO: JAMES M. FREY, ASSISTANT DIRECTOR FOR  
LEGISLATIVE REFERENCE, OMB

FROM : MICHAEL MOSKOW, DIRECTOR *MM*  
COUNCIL ON WAGE AND PRICE STABILITY

SUBJECT : RECOMMENDATION ON ENROLLED S. 1281 -- HOME MORTGAGE  
DISCLOSURE ACT

On balance, the Council on Wage and Price Stability is inclined to favor veto of the above-mentioned bill. The reason is our opposition to Title III which would require financial institutions to disclose by geographic area the value of home mortgage loans. Our opposition is based on our opinion that geographical discrimination in the granting of home mortgages is a rare phenomenon and therefore the costs of gathering the required information are likely to outweigh any potential benefits.

The Council does not oppose Title I which extends (temporarily) the authority of Federal financial regulatory agencies to regulate interest rates on deposits or Title II which extends for two years the National Commission on Electronic Fund Transfers.

If the President does sign the bill, the Council recommends a strong accompanying statement warning about the costs and potential harm of Title III.

cc: James MacRae, OMB

STATEMENT BY THE PRESIDENT

I am signing into law today S. 1281. Title I of this bill extends until March 1, 1977, the authority of various Federal agencies to regulate interest rates paid on certain deposits in financial institutions. Title II extends the authorization of the National Commission on Electronic Fund Transfers for two years beyond the confirmation date of its chairperson. I support these two measures. However, I have some reservations about Title III, the "Home Mortgage Disclosure Act of 1975."

This Act will require financial institutions having over \$10 million in assets and operating in large urban "standard metropolitan statistical areas" to comply with a new program of Federal regulation. All of these depository institutions will be required to compile, and make available for public inspection, information on the number and total dollar amount of mortgage and home improvement loans, broken down by census tract or zip code. This Federal law will be enforced by several Federal regulatory agencies (the Federal Reserve Board, Federal Home Loan Bank Board and others) and will supersede any inconsistent provisions of State laws. The Federal Reserve Board will have authority to exempt State chartered institutions which are subject to similar State disclosure and enforcement requirements.

In essence, this third Title attempts to highlight the problem of mortgage and home improvement loan fund shortages in some parts of large urban areas -- often lower income, older neighborhoods -- where credit discrimination based upon geographic factors is alleged to occur.

I firmly believe, as do most people, that discrimination on racial or ethnic grounds is a practice which is abhorrent to our American way of life. Our Constitution grants equal liberties to all citizens. Federal, State and

local laws expressly prohibit discriminatory practices. Our courts have continued to uphold the principle that a strong and free Nation is one which can, and must, protect any individual's rights, regardless of race or religion. This bill attempts to expose any such discrimination by financial institutions providing housing credit. I strongly support this objective.

While I note that the Congress claims that this legislation is not intended to encourage unsound lending practices or the allocation of credit, I am concerned that this Mortgage Disclosure Act may impose a burdensome and costly requirement for additional recordkeeping and paperwork. Unless this new disclosure program is very carefully administered, the Federal Government will be placing yet another requirement on the private sector -- a requirement which will impose substantial costs but will do very little to increase the total availability of mortgage funds in our housing markets.

I trust that the agencies administering Title III of this bill will assess carefully the costs and benefits to both the lenders and borrowers. As presently enacted, this legislation will have a four-year life. If, within that period, undue burdens result from the implementation of this program, I shall not hesitate to recommend amending legislation.

I also trust that the Congress will join with my Administration in working to solve the capital shortage problem which our country faces. Over the years our expanding capital markets have helped keep the American economy strong because sufficient capital -- for housing, industry, consumer credit and other purposes -- has been available to sustain economic growth. Rather than support capital allocation, my Administration is committed to

improve and strengthen the free market mechanisms used for raising and investing capital -- particularly for housing. To this end I have urged Congress to enact the Administration's Financial Institutions Act of 1975, (S. 1267), a bill which will permit banks and other thrift organizations to offer competitive yields on savings deposits and a wider range of services to customers and homebuyers. This legislation will offer new incentives to all mortgage lenders and should help alleviate shortages of mortgage money in every housing market of our Nation.



KKK

I am signing into law today S. 1281. Title I of this bill extends until March 1, 1977, the authority of various Federal agencies to regulate interest rates <sup>PAID</sup> on certain ~~savings~~ deposits <sup>IN</sup> ~~the~~ financial institutions. Title II extends the authorization of the National Commission on Electronic Fund Transfers for two years beyond the confirmation date of its chairperson. I support these two measures.

However, I have some reservations about Title III, <sup>the "Home Mortgage Disclosure Act of 1975."</sup>

This ~~title~~ <sup>(ACT)</sup> will require ~~the~~ financial institutions <sup>HAVING</sup> ~~with~~ over \$10 million in assets <sup>AND</sup> ~~which~~ operating in large urban "standard metropolitan statistical areas" to comply

with a new program of Federal regulation. ~~The language will~~

~~include~~ All of these depository institutions <sup>WILL BE REQUIRED</sup> to compile, <sup>INFORMATION ON THE NUMBER</sup> and make available for public inspection, ~~the number~~

AND TOTAL DOLLAR AMOUNT OF BROKEN DOWN mortgage and home improvement loans, by census tract or zip

code. This Federal law will be enforced by several Federal regulatory agencies (the Federal Reserve Board, Federal Home Loan Bank Board and others) and will supersede any inconsistent provisions of State laws. The Federal Reserve Board will have authority to exempt State chartered institutions which are subject to similar State disclosure and enforcement requirements.

In essence, this <sup>title</sup> ~~bill~~ <sup>ATTEMPTS</sup> to <sup>HIGHLIGHT</sup> ~~address~~ the problem of ~~shortages~~ <sup>of funds for</sup> mortgage and home improvement

FUND SHORTAGES

loans in some parts of large urban areas--often lower income, older neighborhoods--where credit discrimination is alleged to occur. based upon geographic factors

I firmly believe, as do most people, that discrimination on racial or ethnic grounds is a practice which is abhorrent to our American way of life. Our Constitution grants equal liberties to all citizens. Federal, State and local laws expressly prohibit discriminatory practices. and our courts have continued to uphold the principle that a strong and free Nation is one which can, and must, protect any individual's rights, regardless of race or religion. This bill attempts to expose any such discrimination ~~on the part of~~ <sup>by</sup> financial institutions providing housing credit, and I strongly support this objective.

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IN WORKING TO solve the capital shortage problem which our country faces. Over the years our expanding capital markets have helped ~~to~~ <sup>keep</sup> the American economy strong ~~because~~ because sufficient capital--for housing, industry, consumer credit and other purposes--has been available to sustain economic growth. Rather than SUPPORT CAPITAL allocation, ~~of capital~~ my Administration is committed to improve and strengthen the free market mechanisms used for raising and investing capital--particularly for housing. To this end I have urged Congress to enact the Administration's Financial Institutions Act of 1975, (S.1267), a bill which will permit banks and other thrift organizations to offer competitive yields on savings deposits and a wider range of services to customers and homebuyers. This legislation will offer new incentives to all mortgage lenders and should help alleviate shortages of mortgage money in ~~the~~ EVERY ~~the~~ housing markets of our Nation.

## STATEMENT BY THE PRESIDENT

I am signing into law today S. 1281. Title I extends until March 1, 1977, the authority of various Federal agencies to regulate interest rates on certain savings deposits. Title II extends the authorization of the National Commission on Electronic Fund Transfers for two years beyond the confirmation date of its Chairperson. I support these two measures. However, I have major reservations about the appropriateness of Title III.

This third title will require all financial institutions with over \$10 million in assets which operate in standard metropolitan statistical areas (SMSA) to comply with a major new program of Federal regulations. The language will force all depository institutions meeting these criteria to compile, and make available for public inspection, lists of all their mortgage and home improvement loans, by census tract or zip code. This Federal law will be enforced by several Federal regulatory agencies (the Federal Reserve Board, Federal Home Loan Bank Board and others) and will supersede any inconsistent State law. The Federal Reserve Board will have authority to exempt State chartered institutions if it determines that they have sufficiently similar disclosure and enforcement programs.

This title attempts to deal with a problem that has been recognized and studied for many years. Mortgage and home improvement funds have often been scarce or unavailable for parts of large urban areas where unemployment has historically been high, where the housing stock is old and deteriorating, and where credit risks have been determined by many private lenders to be too high to justify the interest rates which can be levied on a loan, rates for which are often controlled by government mandated ceilings.

I strongly believe, as do most people, that discrimination on racial or ethnic grounds is a practice which is abhorrent to our American way of life. Our Constitution grants equal liberties to all citizens. Federal, State, and local laws expressly prohibit discriminatory practices. And our courts have continued to uphold the principle that a strong and free Nation is one which can, and must, protect any individual's civil rights, regardless of race or religion.

This bill attempts to prevent such discrimination, but it is not at all clear that it can. Unless very carefully administered, it will usher in a burdensome and costly requirement for additional recordkeeping and paperwork. Washington will again be dictating to States and cities how they should enforce laws. And it will be placing yet another questionable requirement on the private sector -- a requirement whose costs will be great and which may do little or nothing to end the practice of credit discrimination against those living in certain neighborhoods.

This provision also poses another risk to our system of private enterprise. Though the bill's supporters vigorously claim that this is not intended in any way to force financial institutions to allocate capital, there is a real danger here that such a system of recordkeeping and reporting could quickly lead to further controls. Too often our free market economy has been tampered with by governments seeking noble objectives, but we have only to look at the consequences of government interference and regulation to appreciate how often those worthy ideals have become distorted in the cumbersome application of government fiat.

Our capital markets have grown and helped to make our economy strong largely because capital -- whether for housing, industry, consumer purchases, etc. -- has been directed toward the most efficient and credit worthy endeavors. And my

Administration is seeking to improve and strengthen the mechanisms used for raising and investing capital -- particularly for housing. I have urged Congress to enact the Administration's Financial Institutions Act of 1975, (S. 1267) a bill which will permit banks and other thrift organizations to offer competitive yields on savings deposits and a wider range of services to customers and homebuyers. This legislation will offer new incentives to all mortgage lenders, and should help bring new sources of funds into the housing markets of our country.

In addition, the Federal Government has created a number of programs designed specifically to improve the conditions of low and moderate income housing. However, I strongly doubt that achievement of this objective will be furthered by subjecting lending institutions to unwarranted pressure to match up their loans and deposits on the basis of arbitrary geographic boundaries.

I trust that the agencies administering Title III of this bill will carefully assess the costs and benefits to both the lenders and borrowers. I note that this legislation will have a four-year duration. If, within that period, undue burdens result from the implementation of this program, I shall not hesitate to recommend amending legislation.

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While I note that the Congress claims that this legislation is not intended to encourage unsound lending practices or the allocation of credit, I am concerned that it will usher in a burdensome and costly requirement for additional recordkeeping and paperwork. Unless this new disclosure program is very carefully administered, Washington will be placing yet another requirement on the private sector--a requirement whose costs will be great and which will do very little to increase the total availability of mortgage funds in our housing markets.



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I also trust that the Congress will take action to solve the capital shortage problem which our country faces. Over the years our expanding capital markets have helped to make the American economy strong largely because sufficient capital--for housing, industry, consumer credit and other purposes--has been available to sustain economic growth. Rather than allocation of capital, my Administration is committed to improve and strengthen the free market mechanisms used for raising and investing capital--particularly for housing. To this end I have urged Congress to enact the Administration's Financial Institutions Act of 1975, (S.1267), a bill which will permit banks and other thrift organizations to offer competitive yields on savings deposits and a wider range of services to customers and homebuyers. This legislation will offer new incentives to all mortgage lenders and should help alleviate shortages of mortgage money in all the housing markets of our Nation.

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However, I have some reservations about Title III, *the "Home Mortgage Disclosure Act of 1975."*

This ~~bill~~ <sup>(ACT)</sup> will require ~~the~~ financial institutions <sup>HAVING</sup> ~~with~~ <sup>AND</sup> over \$10 million in assets ~~and~~ operating in large urban "standard metropolitan statistical areas" to comply with a new program of Federal regulation. ~~It will require~~

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FUND SHORTAGES

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Mortgage Disclosure Act

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In essence, this third Title attempts to highlight the problem of mortgage and home improvement loan fund shortages in some parts of large urban areas -- often lower income, older neighborhoods -- where credit discrimination based upon geographic factors is alleged to occur.

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Office of the White House Press Secretary

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THE WHITE HOUSE

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# # # #

## HOME MORTGAGE DISCLOSURE ACT OF 1975

JUNE 6, 1975.—Ordered to be printed

Mr. PROXMIRE, from the Committee on Banking, Housing and Urban Affairs, submitted the following

### REPORT

together with

### ADDITIONAL VIEWS

[To accompany S. 1281]

The Committee on Banking, Housing and Urban Affairs, to which was referred the bill (S. 1281) having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

#### PURPOSE OF THE LEGISLATION

The Committee finds that many lending institutions are reluctant to make mortgage loans on existing homes in older urban neighborhoods. There is ample documentation that credit-worthy persons are sometimes denied loans on sound homes solely because of the location of the property. This practice, which is popularly termed "red-lining," accelerates the decline of older neighborhoods and leads to the waste of existing housing stock, which the country can ill afford. The purpose of the legislation is to inform consumers about the geographical lending practices of banks, savings and loan associations, and other depository institutions making mortgage loans. The committee believes that once depositors are aware of the lending policies of institutions located in their communities, marketplace competition will lead lenders to become more community-minded, and mortgage credit will become more plentiful in older neighborhoods, to the benefit of those neighborhoods. There is nothing in the bill that requires a lender to favor particular neighborhoods, or to make unsound loans.

## BRIEF SUMMARY OF THE LEGISLATION

The legislation requires mortgage lenders covered by the Real Estate Settlements Act of 1974 to disclose by census tract the number and dollar amount of mortgage loans originated by that institution during the previous fiscal year, as well as the total number and dollar amount of all such loans outstanding as of the close of the fiscal year. The disclosure statement also must disclose by census tract the breakdown between loans to owner-occupied versus absentee-owned housing as well as the breakdown between conventional, FHA and VA loans.

Lending institutions located outside standard metropolitan statistical areas are exempt from the legislation. If a lender located within an SMSA makes any loans outside that SMSA, those loans must be disclosed by county.

This disclosure of lending patterns will enable consumers to compare the lending record of different banks and thrift institutions in local communities. It will also lead to greater awareness by municipal governments of the effects of local lending patterns on homeownership and neighborhood preservation. It may encourage re-investment in areas formerly "red-lined."

The legislation provides that the Federal Reserve Board shall write the overall regulations for implementation of the Act, and that each bank supervisory agency shall regulate institutions under its usual jurisdiction. The Board is also required to carry out a three-year study of the effects of the legislation, and to provide recommendations for additional disclosure, if any. The legislation provides that states are free to adopt their own mortgage disclosure requirements, and that the Board shall exempt any institution located within a state that has adopted similar or more stringent disclosure requirements.

## HISTORY OF LEGISLATION

On March 22, 1975, Senator Proxmire introduced S. 1281 to provide for public disclosure of geographical lending patterns by depository institutions, in order to deter lenders from practicing "red-lining." S. 1281 was co-sponsored by Senators Stevenson and Brooke.

Hearings were held by the full Committee on May 5 through May 8. The Committee heard from neighborhood representatives, community leaders and public officials from fifteen major cities in which disinvestment in older neighborhoods is considered a serious problem, including Chicago, Boston, Milwaukee, Baltimore, Cincinnati, Indianapolis, Los Angeles, Oakland, Providence, St. Louis, Cleveland and Washington, D.C. The Committee's lead witness, Governor Daniel Walker of Illinois, has proposed similar legislation at the State level, as recommended by a blue-ribbon Governors Commission on Mortgage Practices. The Committee also heard from a wide range of civil rights, public interest, academic and financial industry witnesses, and from Chairman Thomas Bomar of the Federal Home Loan Bank Board.

The Committee met May 22, and amended the original bill to delete disclosure of the geographical source of deposits, provide the exemption for non-SMSA institutions, mandate the Federal Reserve Board study, and provide for reporting by census tracts rather than U.S. Postal Zip Codes.

## NEED FOR LEGISLATION

The survival of owner-occupied urban neighborhoods depends in part on the availability of mortgage credit. While Congress in 1968 wisely mandated the construction of 26 million new housing units over a ten-year period, it is self-defeating to look only to new construction while ignoring the maintenance of sound, existing housing stock. Obviously, if existing stock is being depleted as fast as new units are added, progress is not being made.

The need for this legislation arises out of the growing disparity between the availability of mortgage credit for new and for existing housing—particularly existing housing in neighborhoods that happen to be urban, racially integrated, built prior to world war II, or all three.

Throughout the country, such neighborhoods are suffering from disinvestment by mortgage lending institutions. The subjective fear on the part of a lender that the neighborhood may be "declining" itself becomes one cause of the decline. Homes in such neighborhoods become more difficult to sell because prospective buyers have difficulty obtaining mortgage loans. Property values drop. Homeowners move out. And the neighborhood does decline.

Typically, a potential buyer with a good credit rating attempting to purchase a sound home in an older urban neighborhood often meets a cool reception from local lenders. The buyer is frequently told he must come up with a higher downpayment and accept a shorter payback term—if he can get credit at all. Conversely, the same buyer finds 90 percent-30 year mortgages plentiful in the adjoining suburbs.

The result of this disparity, ironically, is to discourage the revitalization of cities just at a time when the energy shortage, the increase in housing costs, and a shift in values is leading many Americans to reconsider older, established communities as attractive places to live.

As Professor George Sternlieb, one of the country's recognized authorities on housing disinvestment, told the Committee:

The day is over when we could assume that we were going to rehouse everybody in a new tract house in suburbia. When we were rich, we could throw away old neighborhoods and used housing. We're not so rich any more.

The popular term for disinvestment by lenders in older communities is "red-lining." The term derives from the extreme practice of actually drawing a red line around sections of the map which are considered too risky to lend in.

The Committee has no evidence that any lenders literally wield red pencils nowadays, but the result is the same. Often, the process is very subtle. One witness, George Schermer, chairman of the District of Columbia Commission on Residential Mortgage Investment, described the reality well:

"There is a tendency to color the picture in such simplistic terms as 'redlining,'" Mr. Schermer testified. Discrimination does exist, he noted,

But frequently it is discrimination in favor of the "old boys," the traditional majority borrowers and builder/developers. Their practices are consistent with the competition for



capital, but they work to the disadvantage of individual borrowers of modest income, black and white, male and female, and are completely contrary to the intent of the legislation that did so much to build up the savings and loan institutions in the first place.

The latter, along with credit unions, were instituted to encourage thrift among people of modest income and provide the mechanism to plow those savings back into the neighborhood where they were accumulated, in the form of home mortgages.

Today, the financial institutions seem to view city dwellers of modest (but not necessarily low) income as the people who were left behind and who inhabit older, run-down houses.

Without any attempt to educate local citizens in matters of banking and borrowing or to point out the distinctions between a bank and a savings and loan, some of these people would have us believe that the equivalents of Franklin National get into trouble because Mr. and Mrs. Jones didn't meet their mortgage payments, rather than due to poor market investments and speculation in foreign currencies.

They have, for at least the past twenty-five years, written off the cities in favor of the "safer risks" in overbuilt, over-mortgaged, overpriced and under-sewered suburban barracks.

Borrowing has always been a privilege, not a right. However, it was the intent and purpose of the legislation creating the Home Loan System that a neighborhood resident who had established a reputation as a reasonable credit risk could come to a local thrift institution as a respected applicant, not as a supplicant.

At the very time that local city administrations, with the benign help of the Federal Government through various urban renewal and community development programs, were trying to rescue the central cities from decay, the thrift institutions were hastening the process of decay through the policies of disinvestment.

The Committee recognizes that arbitrary disinvestment by lending institutions is only one of many causes of urban decline. But to the extent that "redlining" does contribute to urban decline, the Committee believes that disclosure is an appropriate remedy.

Disclosure, as one witness explained, would provide "the framework in which community groups, armed with the facts, can protect the integrity of their neighborhoods and their own vital interests."

#### *Who is redlined?*

During the course of four days of hearings, the Committee received well documented testimony from neighborhood groups through the country, representing the communities that typically suffer from redlining. These tend to be neighborhoods with the following characteristics:

- Older, though well-built housing stock
- Middle-class or blue collar income levels
- Racially integrated, white-ethnic, or black populations.
- Adjacent to poorer communities

The Committee believes that these are precisely the sort of communities that need to be revitalized and stabilized if cities are to revive. But these are typically the very communities that suffer from disinvestment. "Stabilized" does not mean racially re-segregated. A stable neighborhood is one with a steady or increasing proportion of homeowners, who take pride in their community, keep up their properties, and demand their fair share of municipal services regardless of its racial or ethnic make-up.

Committee witnesses presented impressive evidence documenting the degree of disinvestment in such communities. In most cases, neighborhood groups have developed the data by tabulating property records, one by one, available from the local recorder of deeds. The raw statistics were then sorted by lender and neighborhood, an extremely time-consuming process. More sophisticated computerized studies using census-tract mapping were conducted by the Baltimore City Housing Department, the Center for New Corporate Priorities in Los Angeles, the Phoenix Fund for St. Louis, the National Urban League in Bronx, New York; and the Banking Committee staff with the assistance of the Library of Congress for Washington, D.C.

Generally, the data in at least fifteen cities, showed a consistent pattern in which most lenders seem to be reluctant to make loans in older neighborhoods. Further, witnesses provided the committee with extensive personal accounts of the experiences of would-be homeowners being informed by most local lending institutions that mortgages in such neighborhoods would be available only on onerous terms, if at all.

The Illinois Commissions—one appointed by Governor Walker, the other by the State Legislature—provided extensive illustrations. Governor Walker told the Committee of a young prosperous couple who received a warm welcome from one of Chicago's savings and loan associations "until they told the loan officer the location of the home. The loan officer according to this couple, stammered a bit, offered a few lame explanations, but the deal was clearly off."

Governor Walker commented:

This experience has occurred with greater and greater frequency in the last few years in too many communities in our large cities. It has been a common experience for minority areas for many years. But it is just in recent years that the problem has spread to the middle-class and the middle-aged areas of our cities.

Those neighborhoods are now teetering. They can be maintained, they can be stabilized and improved, or they can go the way that other neighborhoods have gone in the past—down the road of blight and slum.

The problem is redlining; impeding the flow of mortgage funds for particular neighborhoods.

Well-documented research on credit flows and personal experiences provided a similar picture of other cities:

In St. Louis, the Phoenix Fund study of Savings and Loan lending activity between 1960 and 1974 revealed that loans made in the city of St. Louis declined almost 75% during those years. Between 1973 and 1974, city lending declined almost 50%, while savings in the city increased by 15%.

Witnesses from Boston described the situation in the community of Jamaica Plain, a transitional neighborhood located between the inner city area of Roxbury and the affluent community of Brookline. In Jamaica Plain, according to a neighborhood association, the bulk of mortgage lending is being done by two small neighborhood based co-op banks, while the City's larger thrift institutions are generally dubious about the area.

Property transfer records from Milwaukee's West Side indicated that the closer a property was to the inner city, the more difficulty a prospective borrower experienced obtaining a mortgage loan. A West side resident was told by a loan officer that she could get only a 12 year mortgage because of the age of the property and its location. "Go West of 60th Street and then we can talk 20 to 25 years", she was told.

A consumer survey by the local neighborhood association indicated that of 76 loan inquiries about properties on the Westside of Milwaukee, 63% resulted in flat turn-downs, and 25% in highly unfavorable terms.

Research in Chicago by several community organizations, a commission of the State legislature and a Governor's advisory commission showed serious disinvestment in Chicago's older neighborhoods. In one city zip code, 60622, for example, local institutions drew \$64.5 million worth of savings, but provided only \$172,000 worth of loans.

The 1974 statistics assembled from data filed by lending institutions under a newly enacted Chicago ordinance showed that one institution, with \$10.4 million from 13 redlined neighborhoods, failed to make a single home loan in those areas. These are not, incidentally, neighborhoods where rental housing predominates, or neighborhoods lacking demand for credit. Another institution, with \$16.2 million in savings from the redlined neighborhoods, made just a single home loan, for \$18,000, in those neighborhoods.

Even in the older relatively affluent suburb of Oak Park, an attractive community known for the distinctive quality of its turn-of-the-century homes, disinvestment has become a serious problem. The Committee heard testimony that well-maintained homes were typically rejected by lenders solely because of the age of the house. One billion dollar thrift institution in the Chicago area customarily turns down loans on houses over 25 years old, the Committee was told. The largest savings institution based in Oak Park during a recent period lent \$1.5 million dollars in outlying suburbs, but only \$40 thousand in its home community. Another institution with a branch office in Oak Park flatly told a borrower that it is "strictly savings here" meaning the Oak Park office. This institution, Village Federal Savings, went so far as to delete the ". . . and Loan" from its signs and its advertising.

The Committee believes that the age of a house cannot be taken as an arbitrary indication of its soundness. Obviously, the essential factor is the property's estimated remaining useful life, not the year of its construction. Some homes built in 1900 will probably outlast shoddier houses constructed in 1970. As one of the Committee's Illinois witnesses remarked, only partly in jest, "The White House is 150 years old. I hope President Ford never needs a mortgage."

In Washington, D.C. a study conducted by the Library of Congress for the Committee analyzed mortgage lending by institution and by census tract. The study revealed that only about ten cents out of every

dollar lent in 1973 by D.C. based institutions was actually lent in the city of Washington. Of that 10%, a disproportionate amount went to white neighborhoods. Comparisons between neighborhoods that are similar with respect to income and housing stock characteristics but not race showed that, other things being equal, a black community is far less likely to receive conventional mortgage credit.

Far Northwest Washington, an affluent area that is 97% white received in 1973 triple the mortgage loan dollars per capita than went to Upper 16th Street, a comparable area that is 70% black. In one upper middle class predominantly black community, Randle Highlands, only 3 of the District's 27 lenders made more than \$100,000 worth of loans. The vast majority of that neighborhood's home financing came either from cash purchases, seller-financing, or mortgage companies, rather than from depository institutions such as banks or savings and loans.

A study by the U.S. Commission on Civil Rights on mortgage lending in Hartford, Connecticut, showed that under-appraisal of homes in minority or integrated neighborhoods is a common practice that results in higher effective downpayment requirements and effectively penalizes prospective buyers of inner city homes. According to the Commission, "Often, the under-appraisal was made without discriminatory intent, but rather on the basis of the traditional appraiser view that property values decline in minority and transitional neighborhoods."

In Cincinnati, the Coalition of Neighborhoods conducted extensive research on three areas that are comparable with respect to income, education levels, and housing stock: Bond Hill, an integrated neighborhood; Oakley, an all white community; and Evanston, a predominantly black community. Studying credit flows between 1960 and 1974, the researchers found that "Cincinnati's lending institutions, particularly savings and loans, have withdrawn financial support from the black and racially transitional communities."

Likewise, in Providence, witnesses reported cases in which applicants were told not to bother to apply for loans, because of the property's age or location. Responding to the alleged absence of hard data indicating demand for loans in such neighborhoods, one witness graphically described "The nervous couple going in for the first time to try to buy a home. The guy (the loan officer) says, 'Well, we really aren't in favor of that area,' and they just sort of creep out the door, and that's it. No application."

In Indianapolis, witnesses from the Coalition to End Neighborhood Discrimination presented a study showing that one of the City's largest savings and loan institutions lent \$41 dollars in outer areas for every dollar in older neighborhoods. One of the largest commercial banks lent \$93 dollars outside the city for every dollar in the entire city.

The most exhaustive research on urban disinvestment the Committee is aware of was conducted by the Baltimore City Department of Housing and Urban Development. Using computerized property transfer records, the Department analyzed a 100% sample of mortgage loans made in Baltimore City and Baltimore County by census tract and by institution for the years 1970 and 1972, developing the concepts of "Financial Neighborhood" to show what sort of financing mechanisms



predominate in particular communities, and "Financial Vitality Index" to measure "the financial health and stability of the housing market in each of the City's census tracts."

The key to being able to conduct such a comprehensive study was the availability of computerized property transfer records, which exist because Baltimore is one of a small number of cities where a commercial reporting service, Lusk's Directory, keeps its records by computer.

S. 1281 would provide lending data by institution and by census tract comparable to that which exists in Baltimore. According to Robert Embry, Jr., Baltimore Commissioner of Housing, the availability of such data was the crucial factor that enabled the City to persuade lenders to increase mortgage lending within the city. According to Commissioner Embry, the Baltimore study showed that:

(a) Lending policies relating to the size of loans eliminated a substantial portion of Baltimore City transactions—the prevailing policy being "no loans under \$15,000—where 75% of our residential market is under \$15,000.

(b) Lending institutions adopted policies relating to property that eliminated a large segment of city houses on the market, e.g., loans not available on houses over 20 years old or those which are less than 18 feet wide. By the way, almost two-thirds of our houses were built before 1939, and many of our houses are row houses 12, 14 and 16 feet wide.

(c) Key officers of lending institutions appeared to have imperfect knowledge of current conditions in the city and particularly of the growing strength of many neighborhoods.

(d) Lending institutions vary considerably in the percentages of their loans which are made in the city. Some of the larger institutions with apparent ability to do much more make virtually no loans in the city.

(e) Racial discrimination appeared to exist with respect to medium-income blacks who did not appear to have the same access to mortgage financing as medium-income whites.

Commissioner Embry reported that on the basis of the study, the City reached agreements with Baltimore lenders to remove some of the arbitrary restrictions and increase lending inside the city. The agreement includes:

1. A removal of all arbitrary restrictions on mortgage lending, e.g., age, size of house, in favor of considering all requests on the merits of the applicant and the house.

2. A pledge of \$45 million in loans above the previous year's lending. This isn't just a one-year commitment. This is an open-ended commitment for the future, over and above \$45 million.

3. The establishment of a committee consisting of lenders and public officials to review claims of unfair or unreasonable denial of mortgages with the authority to place loans among member firms if the claims are substantiated.

Commissioner Embry told us:

In spite of this progress locally, we very much welcome and hope for the passage of Senate Bill 1281.

We feel that a major reason for existence of the thrift industry is to serve the housing needs of the communities and neighborhoods in which the lenders are located. Other than voluntary disclosure there has been no way for the public to determine if this obligation has been met, and we know of few cases of full voluntary disclosure.

\* \* \* \* \*

During our study we found significant evidence that lenders did not realize the composite effect of their lending policies because they did not keep records in a fashion that would have revealed such patterns.

It is our feeling that the proposed disclosure legislation will require the lenders to become more closely attuned to the effects of their lending policies. It will also have the effect of making them more accountable to their depositors, an almost lost consideration in today's market.

The Committee notes that a similar agreement has been reached in Milwaukee, under which lenders agree to review loan applications that appear to have been rejected arbitrarily. In Chicago, where the city requires institutions seeking city deposits to disclose their geographical lending patterns, one neighborhood reached a "greenlining" agreement with five financial institutions, that promised to increase their lending in older neighborhoods in exchanges for pledges of increased deposits. One institution has begun keying its adds to its community-minded lending practices. In all three cities, disclosure of lending data was the catalyst that led to the agreement.

The Committee believes that reinvestment in older neighborhoods would be stimulated in other areas by the disclosure of lending data. Merle Mergell, Mayor of Inglewood, California, a racially integrated city of 100,000 that has experienced severe disinvestment, told the Committee:

When lending institutions designate an area as a high risk area, they doom it.

It is more than frustrating to us to see developers and homeowners wishing to invest and reinvest in Inglewood not able to do so because of a subjective, discriminatory decision on the part of the financial institutions. . . .

If I knew that a certain savings and loan in the city of Inglewood was lending money there, I would be very prone to put my money in that savings and loan. I think other residents would too.

Mayor Gibson of Newark, New Jersey, appearing on behalf of the U.S. Conference of Mayors, told us: "The scarcity of concrete data on savings and loan practices is a stumbling block" in his efforts to promote reinvestment in Newark.



### *Effects of disclosure*

The Committee believes, contrary to the fears of some lending institutions, that disclosure is a mild remedy that will have the effect of encouraging institutions to become more community-minded. Neither the neighborhood witnesses, the government officials, nor the industry representatives who testified on S. 1281 were able to provide any evidence that lending in older neighborhoods increased the risk of default or foreclosure. Baltimore Commissioner Embry told the Committee that the \$45 million increase in city lending did not increase default ratios in his city.

Another witness, former Civil Rights Commission Director William Taylor, now director of the Center for National Policy Review at Catholic University Law School, pointed to the successful experiences of one black savings and loan association in Washington, D.C., to illustrate the irrationality and arbitrariness of other institutions that are reluctant to make loans in the city:

"Independence Federal Savings and Loan, a minority-controlled Savings and Loan here in the District, has been making loans in many neighborhoods in D.C. with a low default rate," Taylor noted. The Committee later learned that Independence makes about 80% of its loans in the city, and in fact made more city loans in 1973 than another institution, Interstate Building Association, which has about ten times Independence's assets. "It is hard to imagine that the challenged institution (Interstate) could demonstrate that its own discriminatory practice is a matter of business necessity," Taylor commented.

The Committee notes that red-lining, under a 1973 regulation issued by the Federal Home Loan Bank Board, is technically illegal, but that the regulation has no practical effect because there is no meaningful enforcement policy. In the case of Interstate, for example, the Bank Board granted that institution a Federal charter in 1974 with no review of Interstate's lending patterns, even though there were red-lining complaints against Interstate pending. The Committee later learned that in 1973, Interstate made 99.7% of its loans outside the city, which seems to be prima facie evidence of red-lining.

The Committee is aware that in response to community criticisms of neighborhood disinvestment by financial institutions, some institutions have sought to defend their record by pointing to their total portfolios, that is, their total loans outstanding. The more meaningful data, of course, is mortgage loans made in recent years. If an institution made some loans fifteen years ago in a neighborhood that is now considered off-limits, it is small comfort to depositors looking for mortgages in 1975 to know that the institution made some loans in 1960 that are still on their books.

In analyzing the charges and counter-charges that have been made, the Committee believes it is important to keep in mind the distinction between total loans outstanding, and loans originated in recent years, in a given neighborhood. And once again, the confusion illustrates the need for reliable data, which can be obtained only through disclosure.

### *Charter obligations*

If an institution views its primary service area merely as a convenient source of deposits to siphon to other areas even though a de-

mand for bankable mortgage credit exists in the home area, the Committee believes such an institution is not fulfilling its charter obligation to serve its area.

At the same time, the Committee rejects the notion that there must be some fixed ratio between deposits gathered from a community and loans returned to that community. Ultimately, the judgment whether an institution is giving good service to consumers must be made by consumers. For that reason, the Committee views disclosure as a useful measure.

The Committee emphasizes that nothing in S. 1281 requires lenders to loan in particular ratios, nor does the legislation require lenders to make unsound loans. Obviously, the lending situation varies substantially between communities, and there is no single percentage appropriate for all communities.

Nonetheless, lending institutions do have an obligation to meet the bona fide credit needs of their localities, especially in view of the fact that these institutions are required to demonstrate that any new office or branch they establish is necessary to meet the "convenience and needs" of the community. The financial regulatory agencies apply the "convenience and needs" test with respect to all new branch and charter applications. It seems appropriate, therefore, that the financial regulatory agencies should conduct a continuing review of how well financial institutions are actually meeting the convenience and needs of their communities, and to deny additional branches to those institutions that have failed to fulfill their community obligations as anticipated in their original branch or charter applications.

As Commissioner Embry observed:

These lending institutions are not operating on a free market. . . . They are supplied a substantial government benefit from the Federal government in terms of insurance, in terms of regulation, in terms of tax benefits, in terms of quasi-monopoly situations within their respective markets. And if in return for that "interference" by the Federal government they are not going to meet the need they were supposed to be meeting, then I think that "interference" might be withdrawn.

### *FHA and red-lining*

The Committee also notes with concern the apparent trend of conventional lenders to "write off" neighborhoods in which FHA is active. Instead of serving to supplement conventional lending, FHA activity appears to be taken as a signal that a neighborhood is changing racially and is hence an unsound area in which to make conventional loans.

Evidence presented to the Committee, particularly from midwestern cities, indicates that the designation "FHA neighborhood" can become a stigma that leads to a self-fulfilling prophecy of neighborhood decline by conventional lenders. As Professor Sternlieb commented:

We have had a variation of Gresham's Law, in which the government-guaranteed mortgage in a neighborhood has essentially driven out the nongovernment-guaranteed mortgage. Now, this certainly wasn't its intent. It was to serve as

a supplement. It was to serve in areas in which conventional mortgaging needed inspiration.

It has not done so in many cases. Rather than that, we now have neighborhoods which are referred to as "FHA neighborhoods."

We had a much more delicate ecology and balance in those neighborhoods than I think any of us realized.

We had an abdication of responsibility on the part of the banking fraternity. Essentially, they stopped looking at the collateral as housing and they looked at the collateral as the imprimatur of the FHA. They bought government guarantees, not housing, instead of taking on what I think many of us hoped for, a very creative symbiotic relationship with bank expertise, management capacities, servicing capacities, government strategy and inducement.

Instead of that yielding a positive result, it ended up yielding an enormous maze of foreclosures, monetary loss, and perhaps much more significantly the loss of neighborhoods, the loss of housing, the loss of life style for a good many of the people were trying to help.

#### *Industry concerns*

The Committee notes the concern on the part of some financial institutions, particularly thrift institutions, that their fiduciary responsibility outweighs all others. The industry is also apparently fearful of "runs" on institutions that are under criticism from community groups for failing to give adequate loan service to their areas.

The Committee is aware that "red-lining" has become an emotionally charged issue in some communities, leading to negative publicity for institutions alleged to practice red-lining. In light of the foregoing, the Committee believes that disclosure is absolutely necessary in order to get the facts out, and to defuse these tensions. Disclosure will also have the effect of defusing demands for explicit credit allocation, since communities that are deteriorating for lack of mortgage credit obviously will continue to demand redress. Mr. William O'Connell of the U.S. League of Savings Association told the Committee:

I don't think our reservation runs to the disclosure itself.

I think what we are talking about is the next step.

The Committee believes that if disclosures works, there will be no need for a next step.

In response to industry assertions that disclosure of geographic deposit sources would be burdensome and would reveal proprietary information, the Committee agreed to delete that provision of the original Proxmire-Stevenson-Brooke bill. As HUD Secretary Mrs. Carla Hills testified:

That aspect of the bill that would disclose to individual depositors where the institution is investing in mortgages would be a helpful disclosure. . . .

I think the bill is helpful insofar as it gives the zip code readings on your mortgages. I think that it would not be unduly burdensome, from what I have been able to glean

from the financial institutions, to provide that information, and it seems to me that it would have helpful aspects.

I am troubled by the second aspect of the bill that would require the addresses and the amounts of each of the depositors, and it is that aspect that I think the burdens outweigh the benefits.

The Committee concurs with Mrs. Hills observation, and has removed the deposit-disclosure provision. As a substitute, the legislation mandate a study by the Federal Reserve Board on the possible usefulness of disclosure beyond that required by S. 1281.

In response to further industry suggestions that red-lining is essentially an urban-suburban problem, and that disclosure might be a problem for very small institutions, the Committee also agreed to exempt institutions located outside standard metropolitan statistical areas. Institutions serving about 35% of the country's non-metropolitan population, will therefore not be subject to the requirements of S. 1281.

#### STATE AND LOCAL ACTION

The Committee notes that disclosure requirements have been initiated in several jurisdictions at the State and Local level. The Massachusetts Commissioner of Banking has recently announced disclosure regulations that go substantially beyond S. 1281. In Illinois, Governor Walker has introduced a comprehensive disclosure bill, which has already passed one House of the State legislature. In California, where State authorities already collect lending statistics by census tract, Governor Brown is considering making the data public. In Chicago, a city ordinance requires disclosure by institutions wishing to do business with the City.

In addition, the Committee believes that the trend at state and local levels to institute disclosure requirements makes it imperative that the Congress act. If the Congress fails to pass Federal legislation, state-regulated institutions in jurisdictions with disclosure requirements could be put at a competitive disadvantage, with the result that institutions might shift to Federal charters in order to circumvent state regulations. Governor Walker stressed this concern at the Committee's hearings.

Failure to enact Federal legislation could threaten the dual banking system and impair the vitality of state chartering. S. 1281 would apply to all institutions, with the proviso that state law would take precedence in states with substantially similar or more comprehensive disclosure requirements.

#### COST

The Committee notes that in instances where states and localities have required disclosure the cost has not been burdensome, especially when disclosure is only prospective, as has been the case in many jurisdictions. The Committee notes that despite some industry predictions of excessive cost, the Washington, D.C. savings and loan associations, when criticized by community groups for neglecting the city, quickly made public data showing the precise geographic source of deposits—a requirement which the Committee deleted from this bill because it



was alleged to be too burdensome. The Committee suspects that once this measure becomes law, many institutions will voluntarily reveal the source of their deposits.

According to a study by the American Bankers Association, the cost of reporting by census tract mortgage loans made during the past two years would be \$2.14 million, or about \$389 per bank. After the first year, when institutions became accustomed to entering new mortgage loans by census tract, the cost would drop to about \$180 per bank per year.

#### SECTION BY SECTION SUMMARY

**SEC. 1. Short Title.** This section provides that the Act may be cited as the "Home Mortgage Disclosure Act of 1975."

**SEC. 2. Finding and Purpose.** This section provides that Congress finds that depository institutions have sometimes failed to provide adequate home financing on a non-discriminatory basis to all the neighborhoods they serve, and that the purpose of this Act is to enable citizens and public officials to better ascertain which institutions are fulfilling their obligation to serve their localities.

**SEC. 3. Definitions.** This section defines "mortgage loan" as a federally related mortgage loan under Section 3 of the 1974 Real Estate Settlement Procedures Act. A "depository institution" is defined as one making a Federally related mortgage loan. A savings account is defined as an account other than a demand deposit. A census tract is defined as one defined and established by the Census Bureau. "Board" means the Federal Reserve Board.

**SEC. 4. (A) 1. Maintenance of Records and Public Disclosure.** This section requires all depository institutions with offices located within a Standard Metropolitan Statistical Area to compile and make available for inspection and copying at each branch:

A. The number and dollar amount of all mortgage loans outstanding at the close of the last fiscal year.

B. The number and dollar amount of mortgage loans originated during the year. 2(a) In addition, the information shall be compiled so as to disclose by census tract loans made on property within the Standard Metropolitan Statistical Area, and to disclose by county loans made outside the SMSA. 2(b) The information must also disclose a breakdown between loans on owner-occupied versus absentee-owned properties, and a breakdown between conventional, FHA-insured and VA-guaranteed mortgage loans.

**SEC. 5. Enforcement.** This section requires the Federal Reserve Board to prescribe regulations to carry out the purposes of this Act. Compliance shall be enforced in the case of:

1. A. national banks, by the Comptroller of the Currency; B. other Federal Reserve member banks, by the Board; C. other FDIC-insured banks, by the FDIC

2. Federally chartered, or insured savings institutions or members of Federal Home Loan Bank system, by the Federal Home Loan Bank Board.

3. Federal Credit unions, by the National Credit Union Administration.

A violation of this Act shall be deemed a violation under the appropriate statute empowering the aforementioned agencies, and they shall have their usual enforcement powers.

In the case of other categories of financial institutions covered by this Act, the Federal Trade Commission is given enforcement authority.

Each designated regulatory agency is authorized to issue appropriate regulations to cover institutions under its jurisdiction.

**SEC. 6. Relation to State Laws.** This section provides that this Act does not alter, annul, or affect state laws on public disclosures and recordkeeping by depository institutions, except to the extent that such laws are inconsistent with this Act. The Federal Reserve Board is authorized to determine whether such inconsistencies exist. The Board may not rule that a state law is inconsistent with this act if the state law provides for a greater degree of disclosure than this Act. The Board shall exempt institutions from compliance with this Act if they are governed by local or state laws providing for disclosure requirements substantially similar to those imposed under this Act.

**SEC. 7. Studies.** This section provides that the Federal Reserve Board, in consultation with the Secretary of Housing and Urban Development, shall carry out a three-year study of the feasibility and usefulness of extending disclosure to cover non-SMSA institutions, to also require disclosure of the geographical source of savings deposits, to require disclosure of average terms and downpayment ratios, and to require disclosure of other neighborhood loan data, such as home improvement and small business loans.

The Board is also required to study the use to which the data disclosed under this Act is put, and its effect on reinvestment in older neighborhoods.

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ADDITIONAL VIEWS OF SENATORS TOWER, GARN,  
HELMS AND MORGAN

INTRODUCTION

The Home Mortgage Disclosure Act of 1975 as reported by the Committee basically requires all depository institutions in urban areas to disclose by census tract where they are making home mortgage loans. The legislation is based on the questionable theory that by giving community action groups control over home mortgage investment decisions of neighborhood thrift institutions, decay of American cities can be retarded. Although the objective of eliminating urban decline is one with which we all agree, we question whether the legislation as presently drafted will make any contribution to that end. Indeed, all indications are that it would be costly for the homebuyer and counterproductive for most inner city residents. Furthermore, the hearings conducted by the Committee were one-sided, raising more questions than they answered. For these reasons, which will be outlined in greater detail, it is our view that this matter should be studied further before embarking on permanent legislation which may add to the cost of homeownership, threaten the solvency of thrift institutions, and hasten the demise of our great cities.

ADEQUACY OF HEARINGS

Neighborhood decline is a many faceted problem. There are numerous well documented theories as to why inner city neighborhoods deteriorate. One theory holds that decline is primarily caused by establishment control of capital and rental property. Accordingly, the bankers and absentee real estate owners determine to pull out of a neighborhood and that triggers the decline. Adherents to this theory demand that the power over capital distribution and rental property be turned over to community groups who will prevent disinvestment. Most of the supporters of S. 1281 who testified see it as a tool to give community groups leverage over the financial institutions to achieve their ends. The more orthodox economic theory teaches that although the flow of mortgage credit into a neighborhood is a factor, social and economic deterioration precede disinvestment.

Of the witnesses that appeared, mostly community action and civil rights groups, over 20 supported the theory that concerted disinvestment by financial institutions is the primary cause of inner city decline. The four industry witnesses and only federal agency witness took the opposite position. One highly qualified city planner was neutral. No urbanologists were called to give the more widely accepted economic theories and a balanced picture of the problem. Nor did officials from the Department, of Housing and Urban Development, the Federal agency with the primary expertise in urban decline, testify during the



hearings on S. 1281. The Committee would have been given a better perspective of the problem if testimony had been obtained from urbanologists such as: Dr. Nathan Glazer, Professor of Education and Social Structure, Harvard University; Professor Ed Banfield, University of Pennsylvania; Professor James Q. Wilson, Harvard University; or Dr. Martin Meyerson, University of Pennsylvania. There are others, but this is just a sampling of the type of testimony necessary for a fair treatment of the issues.

Another unexamined premise of the bill is that local deposits should be used essentially for local credit. Although there was cursory treatment of this subject by the industry witnesses and the Federal Home Loan Bank Board, the issue was not fully developed. The Federal Reserve Board—again the principal agency with expertise in the area—was not called to appear. Nonetheless, in a statement filed with the Committee, Chairman Arthur Burns characterized the bill as being unwise. Although Chairman Burns recognized that it is in the best interests of financial institutions to accommodate the legitimate credit needs of their local communities, he emphasized that one of the main functions of financial institutions is to provide greater mobility for the economy's savings and investments. As Chairman Burns sees it, to insist that capital should not normally flow out of a lender's local market is to risk inhibiting the flow of capital that is essential to support vigorous economic growth in the nation as a whole. Certainly, the Committee members should have had the opportunity to question the Board Chairman on this vital issue. The Federal Reserve Board's absence is particularly significant since it is the agency called upon to administer the legislation.

Probably the greatest shortcoming of the hearings was that there was no accurate data on the cost of the disclosure provisions of the Committee's bill on the institutions and ultimately the homebuyer. As introduced, S. 1281 required disclosure by zip code. In response to the call by the community action witnesses for disclosure by census tract, the Committee amended S. 1281 to meet their demands. Thus, the affected parties were not prepared to present the Committee with the cost of converting their addresses for mortgage loans from zip code to census tract. However, the industry representatives and the Federal Home Loan Bank Board witness testified that such reporting would be quite expensive. On the other hand, the supporters of the bill maintained that this would not be a burden especially if the lenders used the U.S. Census Bureau's ADMATCH computer program for matching street addresses with census tracts. Adequate treatment of the subject would require testimony from the Census Bureau on the costs of the operation of its program as well as computer software experts. Certainly, affected parties should be given adequate time to meet this issue.

There is also grave question as to the significance of the statistical data presented at the Committee hearings. For example, the Library of Congress in its study of lending by D.C. based savings and loan institutions reported that Home Federal Savings and Loan lent in 1973 26.7 percent of its savings in the District. John U. Raymond, President, Home Federal, wrote the editors of the Washington Post on May 18, 1975, that as of last year's end, approximately 42 percent of

their loan dollars were invested in loans on D.C. real estate, substantially all of which was residential property. In addition, Mr. Raymond reported that 38.5 percent of Home Federal's savings carried D.C. zip codes indicating that Home Federal is reinvesting more in D.C. than it receives in deposits. This raises questions on the significance of the D.C. study.

In sum, the hearings raised more questions than they answered. Although we recognize that disinvestment by financial institutions is a contributing factor to inner city decline, the shallow hearings failed to touch on the fundamental problems or point to meaningful solutions. It is our view that before permanent legislation is adopted, more study should be given to solutions either through further Committee hearings or an agency demonstration project.

Certainly, there was no effort made during the hearings to understand the factors which are involved in the decisionmaking process by residential mortgage lenders nor to understand the process by which residential mortgage lending activity deteriorates in our nation's inner cities. At the very least, this legislation should have attempted to enlighten Congress and the public about the dynamics of the processes involved. In the absence of such a study, both Congress and the public will continue to operate in the dark regarding the factors involved in urban lending processes and practices.

#### S. 1281 WILL NOT SOLVE THE PROBLEM OF NEIGHBORHOOD DECLINE

The bill's objective is to reverse neighborhood decline by giving community action groups and depositors sufficient information to force lending institutions to make home mortgage loans in inner city neighborhoods. It is based on the theory that the primary cause of neighborhood decline is disinvestment or redlining. This overlooks the fact recognized by most authorities on the subject that disinvestment generally occurs in the later stages of neighborhood decline. Pumping all the mortgage money in the world into a neighborhood will not create the amenities of the neighborhood or the quality of the city service which so greatly influences its desirability. It cannot cause an improvement in schools, increase safety, give more efficient public transportation, or upgrade any other city service. A more promising approach to the complex problem of upgrading declining neighborhoods, would be to enlist the cooperation of all local governments, property owners, residents and financial institutions—all acting together toward this common objective in given areas. It would be much more effective to put the resources of the public and private sector into programs such as the Urban Reinvestment Task Force now being undertaken by the Federal Home Loan Bank Board and the Department of Housing and Urban Development.

In addition, S. 1281 could be counterproductive by:

- Causing lending institutions to pull out of declining neighborhoods;

- Shaking investors' confidence and causing withdrawals from savings accounts.

- Forcing lending institutions to infuse money into stable neighborhoods creating a turnover in housing and disruption; and

Inhibiting the flow of money from surplus areas of the country where it is not needed to neighborhoods of scarcity where it is needed.

THE SOLVENCY OF FINANCIAL INSTITUTIONS AND THE SAFETY OF DEPOSITS  
WOULD BE JEOPARDIZED

The proponents of S. 1281 ignore the interests of depositors in the safety and yield of their accounts. It is their money that must be protected. Serious questions have been raised whether financial institutions should be encouraged to make real estate loans in certain deteriorating neighborhoods, at least without more stringent credit terms necessary for the protection of the depositors. Some savings and loan associations have become bankrupt in the city of Chicago because they concentrated their lending portfolios on property in deteriorating areas. Appraisals of property were based at values that the sellers and buyers were willing to meet, and over a period of time, the loans went bad. During the hearings, no sympathy was shown for depositors who might lose their savings if financial institutions are forced to make unwise loans.

In addition, the action of irresponsible groups could cause withdrawals or savers' "runs" on the financial institutions if the data disclosed did not happen to measure up to some arbitrary loan volume standard established by that group. This could threaten the very existence of many financial institutions.

The geographic disclosure of lending data by savings and loan associations would be a road map to their competition of their market areas. As an industry, the savings and loans simply cannot stand this added competitive disadvantage.

FINANCIAL INSTITUTIONS WOULD BE INVOLVED IN AREAS OF SOCIAL  
CONFLICT

The requirement in S. 1281 that loan volume be broken down by type of loan—conventional, FHA and VA—is an invitation to chaos. Industry representatives testified that some racial and ethnic groups in major cities want FHA loans; however, some community groups in the same cities insist only on the extension of conventional loans because they think FHA loan will mean the entry of lower-income or minority families. They further testified that the disclosure requirements in S. 1281 may well inflame racial tensions in American cities.

One of the problems with the charge of "redlining" which gave rise to S. 1281 is that "redlining" means different things to different groups. To some, it means excessive speed in foreclosure on FHA loans; to others it means an absence of conventional loans; to still others it means a reluctance on the part of lenders to extend credit in deteriorating or changing neighborhoods. To others, it means conscious and deliberate attempts to "write off" or refuse to extend credit in a neighborhood where the extension of credit is justified.

The question arises as to who shall reconcile the differences between the groups. Financial institutions are certainly not in the position to perform this quasi-governmental function. This could very well lead to the establishment of another counter-productive government bureaucracy.

S. 1281 IS THE FIRST STEP TOWARD CREDIT ALLOCATION

We fear that this disclosure is the first step toward a form of credit allocation—the next would be to say that at least a percentage of the deposits must be invested in a certain area.

In a free competitive mortgage market, the problems of credit allocation are resolved without regard to factors other than the economic ones. The primary problem in recent years has been the limited supply of mortgage money—certain areas get rationed out and these tend to be the high risk areas with low income populations. Lending institutions must look at economic factors—the likelihood of repayment of the loan and the future value of the security—or else they will take unreasonable risks with people's savings.

Some argue against this market system because it does not yield results compatible with their views or philosophy. They appear to believe that they should be involved in allocating credit and that their scheme for allocating credit would be superior to that of the market. Under a free market system, any group is at liberty to combine their resources and allocate their capital as they see fit. But the concern is that there are some who want to redistribute the resources of others in a fashion consistent with their preference.

MISLEADING DATA GIVEN THE COMMITTEE ON DISTRICT OF COLUMBIA  
REDLINING

On the last day of the Committee hearings after industry representatives had testified, the majority staff presented a Library of Congress study which the staff interpreted as establishing that Washington based savings and loans were "redlining" in the District of Columbia. Neither the authors of the study nor the affected parties were called to testify as to its significance and validity. We, therefore, directed the minority staff to request the savings and loan industry in the District of Columbia to supply the Committee members with a response to this D.C. Redlining Study. The data thus obtained from the Metropolitan Washington Savings and Loan League raise serious questions regarding the significance of the Library of Congress study and the conclusion that the savings and loan industry is disinvesting in the District of Columbia.

For example, the Metropolitan Washington Savings and Loan League indicated that in 1973, District of Columbia savings and loans made 12,978 mortgage loans on single-family dwellings in the amount of \$511 million in the Standard Metropolitan Statistical Area. These same associations made 2,023 loans in the amount of \$74 million in the District of Columbia. Thus, for the total lending on single-family housing, the District of Columbia received 15.6 percent of the total loans, and 14.4 percent of the total dollar amounts made by the 15 member associations.

In 1974, the percentages were slightly better in that the District of Columbia received 16.9 percent of the total lending volume made and 14.9 percent of the total dollar amounts.

In relating these figures to the 1970 Census (which is the latest data available), the District of Columbia received 17.9 percent of the total volume in savings and loan mortgage loans and 13.5 percent of the total dollar amounts in home loans. The dollar volume is determined



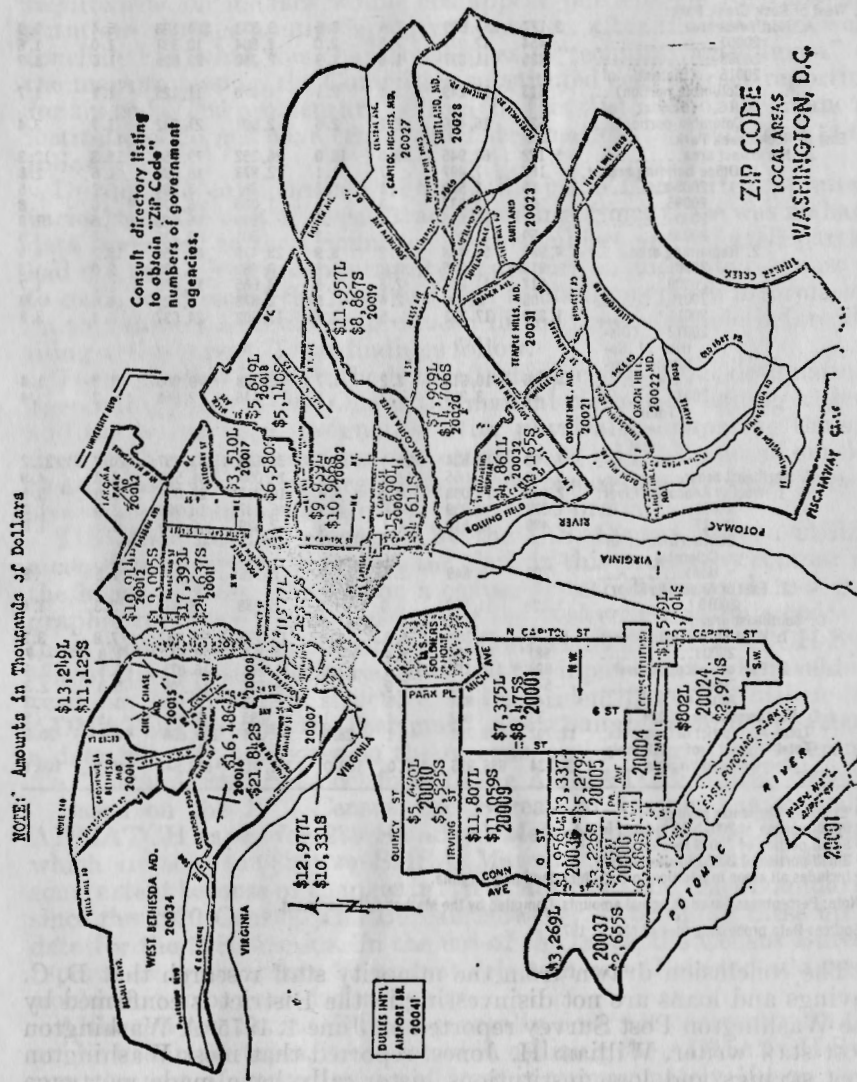
by taking the median price in the 1970 Census on home sales figures and multiplying that by the number of loans. These figures tend to establish that the savings and loans in the District of Columbia (percentage-wise) are making a fair and reasonable amount of home loans in the District—both numerically and dollar-wise.

The attached savings accounts and loan transactions figures from Perpetual Federal Savings and Loan, the most significant savings and loan in the D.C. area, indicated that they have done a commendable job throughout the city.

Much has been said about west of Rock Creek Park and East of Rock Creek Park, the implication being that the west side gets favorable treatment in the way of home loans. The facts are that about 10 percent of the savings comes from west of Rock Creek and they receive about 8.5 percent in loans. The eastern side of Rock Creek receives about 10 percent of the total loans and accounts for about 12 percent of the savings.

Northeast Washington supplies about 5 percent of the savings and receives about 5 percent of the loans. The southeastern area supplies about 3.3 percent of the savings, yet receives 4.4 percent of the loans. The southwest area supplies 1/2 of 1 percent of total savings and receives 1/10th of 1 percent in loans.

In total, the District supplies about 30 percent of the savings dollars and receives 28 percent of the loans made. This does not take into account that many of the zip codes are suburbanites who prefer to have their savings transactions performed at the office address.



TOTAL LOANS AND SAVINGS<sup>1</sup> IN THE DISTRICT OF COLUMBIA, BY ZIP CODE, MAY 2, 1975

Area of the city and zip code	Loans				Savings			
	Number	Amount (thou- sands)	Percent to total		Number	Amount (thou- sands)	Percent to total	
			Num- ber	Amount			Num- ber	Amount
<b>I. West of Rock Creek Park:</b>								
<b>A. Northwest area:</b>								
20007	2,127	\$54,589	7.4	8.6	9,333	\$64,103	5.4	9.9
20008	454	12,977	1.6	2.0	1,804	10,331	1.0	1.6
20015 (District of Columbia portion)	435	11,877	1.5	1.9	2,750	20,805	1.6	3.2
20016 (District of Columbia portion)	613	13,249	2.1	2.1	1,878	11,125	1.1	1.7
<b>II. East of Rock Creek Park:</b>								
<b>A. Northwest area:</b>								
1. Office building area:	5,172	63,945	18.0	10.0	26,352	79,754	15.3	12.3
20004	187	7,497	.7	1.1	2,873	18,398	1.6	2.8
20005	15	1,579	.1	.2	367	3,204	.2	.5
20006	96	3,337	.3	.5	1,086	5,279	.6	.8
20036	17	625	.1	.1	919	6,689	.5	1.0
20012 <sup>2</sup>	59	1,956	.2	.3	501	3,226	.3	.5
2. Remaining area:	4,985	56,448	17.3	8.9	23,479	61,356	13.7	9.5
20001	913	7,375	3.2	1.2	3,480	8,475	2.0	1.3
20009	817	11,807	2.8	1.9	3,665	11,059	2.1	1.7
20010	703	5,690	2.4	.9	2,678	5,525	1.6	.9
20011 <sup>3</sup>	1,870	17,393	.5	2.7	11,002	24,637	6.4	3.8
20012 <sup>3</sup> (District of Columbia portion)	636	10,914	2.2	1.7	2,208	9,005	1.3	1.4
20037	46	3,269	.2	.5	446	2,655	.3	.4
Total north-west area:	7,299	118,534	25.4	18.6	35,685	143,857	20.7	22.2
<b>B. Northeast area:</b>								
1. West of Anacostia River:	3,695	31,055	12.8	4.9	16,000	31,553	9.3	4.9
20002	2,569	19,098	8.9	3.0	10,312	22,686	6.0	3.5
20017	1,377	9,939	4.8	1.5	5,667	10,966	3.3	1.7
20018 (District of Columbia portion)	489	3,510	1.7	.6	2,529	6,580	4.5	1.0
2. East of Anacostia River:	703	5,649	2.4	.9	2,116	5,140	1.2	.8
20019 <sup>3</sup>	1,126	11,957	3.9	1.9	5,688	8,867	3.3	1.4
<b>C. Southeast area:</b>								
1. West of Anacostia River:	1,675	28,360	5.8	4.4	13,426	21,482	7.8	3.3
20003	981	15,590	3.4	2.4	2,162	4,611	1.3	.7
2. East of Anacostia River:	694	12,770	2.4	2.0	11,264	16,871	6.5	2.6
20020	549	7,909	1.9	1.2	9,131	14,706	5.3	2.3
20032 <sup>4</sup>	145	4,861	.5	.8	2,133	2,165	1.2	.3
D. Southwest area: 20024	33	802	.1	.1	893	2,974	.5	.5
Total-All District of Columbia	12,702	178,751	44.1	28.0	66,004	199,866	38.3	30.9
Total-District of Columbia Maryland and Virginia	28,734	636,916	100.0	100.0	*171,911	*643,647	100.0	100.0

<sup>1</sup> Excludes Christmas savings.

<sup>2</sup> Small portion of 20011-12 located in N.E.

<sup>3</sup> Small portion of 20019 located in S.E.

<sup>4</sup> Small portion of 20032 located in S.W.

\* Includes all areas in addition to D.C., Maryland and Virginia.

Note: Percentages based on actual amounts. Compiled by the Marketing Department.

Source: Data processing files of May 2, 1975.

The conclusion drawn from the minority staff research that D. C. savings and loans are not disinvesting in the District is confirmed by the Washington Post Survey reported on June 1, 1975. A Washington Post staff writer, William H. Jones, reported that most Washington area savings and loan institutions historically have made mortgage loans for homes in neighborhoods throughout the city and its suburbs in rough proportion to savings deposits generated from the same neighborhoods.

## COST AND FEASIBILITY OF THE LEGISLATION

There was no accurate data presented at the hearings regarding the cost of the legislation to the financial institutions and ultimately to the consumer. The original bill required reporting by zip code. Since most institutions have zip codes on their deposit and loan addresses, this requirement on its face would not appear burdensome for those institutions with computer capacity. However, after the hearings were concluded in what was characterized as a "technical amendment" at the markup session, the Committee substituted census tract reporting for zip code. The problem arises from the fact that most of the financial institutions do not have census tract designations in their loan portfolios.

During the consideration of the bill by the Committee, opinions varied as to the cost of census tract reporting. Since there was no hard data presented to the Committee on this subject and affected parties had not been given an opportunity to prepare an adequate response as to costs, we directed the minority staff to obtain as much information on this subject as could be produced in the time available before the filing of this report. Those findings follow.

There are two basic methods of attaching census tract designations (geocoding) to address. One is the manual method of having a clerk add the census tract designation after physically comparing the address with a census tract map or census tract address manual similar to a zip code book. For large files, manual geocoding can be an expensive, time-consuming, and often inaccurate process.

The other method pioneered by the U.S. Census Bureau utilizes a computer program to replace the clerk in this process by comparing the house address, which is on a computer-readable record, to a geographic reference list and assigning the desired geographic codes to those records meeting the comparison criteria. This ADMATCH System of the Census Bureau requires that the input data file be machine-readable and contain structure address identifiers. To utilize the ADMATCH System, the user must have a suitable computer system, a data file with addresses on the records, and a geographic reference file. The addresses must conform to the ADMATCH address system.

Based on the 1970 Census, the Bureau of Census has available ADMATCH tapes for 233 Standard Metropolitan Statistical Areas which are sold for \$80 per SMSA. Many of these are out of date to some extent because of changes in street addresses and tract boundaries since the 1970 Census. The Bureau, however, is bringing these up to date for the 1980 Census. In the use of the tapes, the Census Bureau reports an approximate 30 percent rejection rate. Rejected addresses would have to be geocoded manually.

Although the Census Bureau generally does not contract with the public to run the tapes, it has found in utilizing the ADMATCH System, the cost of geocoding an address is approximately 10¢ on mass runs. There should be added to this a cost of \$1.50 per address for the manual geocoding of the estimated 30 percent rejected addresses. There are private computer firms that provide a comparable service.

Experience of users with computer geocoding programs differs



widely. The First Federal Savings and Loan Association of Chicago reports the following encounter with census tract geocoding.

We should like to address our comments to some of the problems and costs involved in classifying our customers' accounts by census tracts . . . which we attempted to do over a two year period to provide greater depth of information for our marketing programs. We believe we are one of the few institutions to develop this approach and, to our knowledge, are the only savings and loan in this area to attempt it.

In our letter to Senator Proxmire, dated May 21, 1975, copies of which were sent to all members of the Committee, we made reference to our extensive experience with matching programs. We can attest to the fact that they are not accurate, that they are not complete, that they are not immediately useful, and that they are not inexpensive. We asked Peat, Marwick, Mitchell & Co. (PMM&Co.) to evaluate the effectiveness and likely expense involved in using a software package produced by the Federal government to match addresses with census tracts. PMM&Co. concluded that the "use of the ADMATCH program would likely prove: time consuming, extremely expensive, and highly unpredictable regarding results."

Within the Chicago SMSA, there are 1,398 census tracts and 305 zip codes. There are many reasons why the matching programs are not immediately useful. Some examples from our immediate experience may assist your understanding the complexity of the matching problem and the reasons why there are presently no simple or inexpensive resolutions. We have discovered errors in the program. Whenever the Postal Service changes the boundaries of a zip code, the matching program is no longer operable. We have discovered that the programs are often not complete, although they may have been accurate and complete when they were developed in the 1960s. Since then, the Postal Service has sometimes required the use of different address styles, which makes the program inoperative, or street names have changed, or new sub-divisions have been added. There are examples of parts of villages which were excluded from the matching program.

Unless address files and therefore addresses are recorded exactly as specified in the program, there will not be a satisfactory matching, even though the use of an address will be perfectly adequate in terms of having mail delivered. We have encountered difficulties when a residence was such that the zip code and the census tract were in different geographic communities. These are a few of the real difficulties that we have had to face in our efforts to match zip codes and census tracts.

In our initial attempts, only 57 percent of the addresses were easily and accurately convertible to census tracts. We believe that a failure rate of 43 percent is clearly too high. As a result of further work and expense, we were able to achieve

a success rate of 82 percent, but there was still an uneven matching rate, with 84 percent in Cook County and only 55 percent in DuPage County. Further efforts were undertaken and the match rate was increased to approximately 93 percent of the processable records.

We estimate that consulting, research and development, programming computer time, and clerical and administrative costs involved in converting our address file to census tracts approximate \$50,000; and that it will cost approximately \$20,000 per year to maintain, to generate and to report the data contemplated. We therefore estimate that it would cost First Federal Savings of Chicago almost \$2 per mortgage to establish a reasonably accurate system, and about \$.70 per mortgage to maintain and to generate these data annually.

We have real concerns about the expenditure of funds for the purposes proposed in this Bill, since First Federal Savings of Chicago and all savings associations are in a real earnings squeeze. We remain unconvinced that "redlining" however defined, can be identified as a result of the data which may be required under this Bill.

#### *U.S. League of Savings Associations study*

The Chief Economist of the U.S. League of Savings Associations reported to our staff that the major problems involved in complying with S. 1281 are of three types: (1) mortgage lenders do not have the internal systems needed for coding mortgage loans by census tract; (2) the Census Bureau's system of developing census tracts is incomplete and has been altered many times during the last several years; and, (3) the availability of computer service assistance and other materials needed to comply with the law are extremely limited and in some cases non-existent.

According to the League, one of the basic problems with complying with the law is the fact that few, if any, savings and loan associations already have computerized or manual systems for coding their loans by census tract. Most savings and loan associations, for example, can obtain a manual or computerized form from their service bureau listing the names and addresses of their mortgage loan customers. Unfortunately, no institutions known to the League have census tracts coded on this address information. An equally disturbing problem is the fact that many institutions do not even have zip codes appropriately placed on their mortgage loan customer files. This has occurred for several reasons:

First, many mortgage loans were made prior to the time when the post office department required zip codes. Thus, many of these zip codes are missing.

Second, missing zip codes or even inappropriate zip codes continue to be found and are uncorrected by financial institutions largely because mail is delivered promptly anyway. This is true because most mail sent by financial institutions is sent first class in their local area. Thus, there is little incentive to correct these files.

Even if these were not problems, associations would still have to develop a new file which merges the mortgage loan ledger balances with the customer address information. Many computer services companies indicate that address and ledger information are located on different computer files requiring a complex merging routine to develop a new file which has both address and account balances on it.

In any case, the presumed simple job of compiling a list of mortgage loan customer addresses and account balances is, in fact, a difficult one for many institutions. It is particularly difficult for those smaller institutions that are not serviced by computer companies and are, therefore, forced to use clerical processing to develop their address and account balance listings.

An even more complex problem confronting an institution attempting to comply with S. 1281 is the simple fact that the census tract system has been altered substantially over the years. The following is a short list of the problems confronting an institution attempting to code their mortgage loans with appropriate census tracts:

One of the first problems confronting an institution is the fact that census tracts have been altered during the years as population growth has increased and as the Bureau of the Census has redesigned its tract system. One such problem is the fact that census tract numbers have been changed from one census to another. A review of the 1970 Census shows that 100% of the census tract numbers for the Chicago SMSA have been revised. A number of census tracts are not comparable because boundaries have been changed due to population growth and other reasons. Again, a review of Chicago's Tract boundaries discloses that nearly 25% of all the 1970 census tracts had their boundaries changed since the 1960 Census.

Another problem confronting particularly the small institutions is obtaining census tracts maps. A cursory analysis done in Chicago by a member of the staff of the League discloses that no census tract maps were available at the present time. These maps tend to be produced by private vendors such as Rand McNally. Because these maps are not available at all, these small institutions in Chicago would be forced to go to one of only four locations such as the Chicago Public Library or the Northern Illinois Planning Association to obtain them. The fact that these maps are difficult to obtain and completely unavailable in some SMSAs makes it virtually impossible for the small institution to successfully code their loans using census tract maps. The only alternative that the League has been able to find is for these institutions to obtain a printed copy of the Bureau of the Census Address Coding Guide (ACG). These address coding guides are currently available from the Census in the form of 270 computer tapes. Unfortunately, the Census Bureau does not produce printed copies of their ACG tapes. Thus, an institution would be forced to again find an outside computer vendor who would convert these tapes to printed copy form. Even with a printed copy ACG, a complex manual clerical search would be necessary for the institution to relate census tracts to specific addresses. This is a time consuming expensive job.

In addition, the Census did not successfully complete its job of matching each address with their appropriate census tract. The League advises us that because of limited funds or the absence of contractors to visually match addresses with census tracts, that large areas of some cities, particularly slum areas, have never been census tracted at all. Thus, there exists a problem that a number of mortgage loans, even where addresses are available, will not be able to be matched to their appropriate census tract.

Finally, there is limited computer service help or materials available. One of the major problems in using Census material is the fact that because of the changes the Bureau of the Census has made in their census tract procedures, the gaps in the data, and the complexity of the Census' ACG system, there are very few specialized computer service companies who know how to use census tract information. In addition to this is the fact that census tract maps are not available or are in limited distribution in virtually all of the SMSAs. As indicated above, maps are currently not available in the Chicago SMSA which is the third largest in the nation. The difficulty in obtaining census tract maps in some of the smaller SMSAs may border on impossible.

#### *American Bankers Association study*

At the request of our staff, the American Bankers Association provided the Committee with the following report on the estimated cost of the compliance to their members affected by S. 1281. The unit costs for determining the overall cost of allocating commercial bank held mortgages to census tracts were based on charges currently made by the Census Bureau for such work. The study indicates that costs would be lowered by two-thirds, if the bill were to cover only mortgage loans made in the last two fiscal years of affected banks. Moreover, the potential costs would be greatly reduced if coverage were limited to some minimum number of Standard Metropolitan Statistical Areas, or if the costs of converting data to Census Tract numbers were borne by the Bureau of the Census. All costs would be greatly reduced if the data were required by zip code rather than Census Tract.

TABLE 1.—SUMMARY OF ESTIMATED COSTS FOR BANKS IN SMSA'S OF ALLOCATING 4,250,000, 1 TO 4 FAMILY MORTGAGES TO CENSUS TRACTS AND ZIP CODE AREAS<sup>1</sup>

	By census tract	By zip code area
Initial allocation and reporting costs (including preparation, coding and programming): <sup>2</sup>		
Assuming total portfolio coverage:		
Total cost (millions).....	\$6.42	\$2.84
Number of mortgages (millions).....	4.25	4.25
Cost per mortgage.....	\$1.51	\$.67
Assuming coverage of loans made in last 2 fiscal years:		
Total cost (millions).....	\$2.14	\$.95
Number of mortgages (millions).....	1.32	1.32
Cost per mortgage.....	\$1.62	.72
Annual maintenance and reporting cost (after initial conversion): <sup>2</sup>		
Total cost (millions).....	\$.92	\$.41
Number of mortgages (millions).....	.66	.66
Cost per mortgage.....	\$1.40	\$.62

<sup>1</sup> Information to be supplied by each bank to include number and dollar amount of mortgages in each tract or area.

<sup>2</sup> Including cost of distributing information to all branches.



TABLE 2.—DATA UNDERLYING ESTIMATED COST OF REPORTING NUMBER AND DOLLAR AMOUNTS OF 1 TO 4 FAMILY MORTGAGES OF BANKS IN SMSAs

	Banks by asset size classes (millions)					Total
	Under 10	10-25	25-100	100-500	500 and over	
<b>Number of banks:</b>						
Total	5,618	4,684	3,169	691	198	14,360
Banks in SMSAs (estimate)	710	1,560	2,375	657	198	5,500
Percentage automated <sup>1</sup>	15	16	37½	85	85	33½
Banks automated (estimate)	106	250	891	427	168	1,842
<b>1 to 4 family mortgages:</b>						
Dollar amount (billions) <sup>2</sup>	\$2.47	\$7.00	\$13.40	\$12.40	\$26.60	\$61.87
Percentage of total	4.0	11.3	21.7	20.0	43.0	100.0
<b>Number of mortgages (thousands):</b>						
Of banks in SMSAs	170	480	922	850	1,828	3,450
Of automated banks	26	72	347	553	1,556	2,554
Of nonautomated banks	144	408	575	297	272	1,696

## COST COMPUTATIONS

	Total portfolio	Last 2 years' loans <sup>3</sup>	Annual maintenance <sup>4</sup>
<b>Census tract estimates:</b>			
1. 70 percent of mortgages in automated banks (thousands) <sup>5</sup>	1,788	554	277
2. Remaining mortgages (thousands) <sup>6</sup>	2,462	763	382
3. Total mortgages (thousands)	4,250	1,317	659
<b>Costs (dollars in thousands):</b>			
\$0.10×(1) above	\$179	\$60	\$26
\$1.50×(2) above	3,693	1,231	529
Other costs \$0.60 per mortgage <sup>7</sup>	2,550	850	366
<b>Total</b>	6,422	2,141	921
<b>Zip code estimates (dollars in thousands):</b>			
1. Mortgages in banks under \$25,000,000 in assets: 652,000 × \$0.75 per mortgage	\$489	\$163	\$70
2. Mortgages in \$25,000,000 in assets:			
Automated (requiring key punch): 46,000×\$0.70	32	11	5
Nonautomated: 876,000×\$0.75	657	219	95
3. Mortgages in \$100,000,000 and over in assets:			
Automated: 2,107,000×\$0.60	1,264	421	181
Key punch and process: 571,000×\$0.70	400	133	57
<b>Total</b>	2,842	947	407

<sup>1</sup> Based on ABA study (1975) of representative sample of 1,700 banks.

<sup>2</sup> Based on FDIC compilation of residential mortgage holdings by asset size classes of banks.

<sup>3</sup> 31 percent of the total number of mortgages and 33 percent of the total costs to supply required information.

<sup>4</sup> 43 percent of the costs to supply information covering last 2 fiscal years' loans.

<sup>5</sup> Based on Census Bureau experience on automated address matching to census tracts.

<sup>6</sup> 30 percent of mortgages in automated SMSA banks plus total mortgages in non-automated SMSA banks.

<sup>7</sup> Cost of collating, sorting, aggregating and listing number and dollar amounts of mortgages.

The foregoing studies leave unresolved questions concerning the feasibility and utility of census tract reporting. The Bureau of the Census' tract system is incomplete. This system was not developed for the type of reporting contemplated in S. 1281, but as a facility for taking the census. Attempts to use the census for other purposes are fraught with the problems of high costs, inconsistent or poor results, large gaps in the data, and large investments in the use of the system.

We are concerned that if this bill goes forward in its present form, it will prove costly to the future homebuyer. The thrift institutions in this country are in an earnings squeeze and they will have to pass the costs on to the consumer who can ill-afford additional inflationary increases.

## CONCLUSIONS

Decay of the inner city residential areas is one of the most serious problems facing our nation. Although mortgage underwriting and disinvestment are a major influence in neighborhood decline, they are only one aspect of the more generalized problem of urban decay. The attitude of problem tenants and slum landlords, usury laws which inhibit high risk loans, restrictive housing codes which prevent the modest rehabilitation which might be sufficient in many cases, and aspects of governmental policy are all elements of abandonment which should be considered and weighed. The totally inadequate hearings conducted by the Committee have not met the burden of establishing that S. 1281 offers a viable solution. Our fear is that it could create more problems than it will solve.

The statistical data provided under the bill could be misconstrued and utilized to jeopardize the solvency of financial institutions and the safety of deposits. It is a step away from the free market allocation of credit which has so well served the American home owner and toward mandatory credit allocation by the government. Finally, there simply was insufficient data on the social and economic costs of the legislation. The many small banks and thrift institutions which do not utilize computers would be loaded with an unnecessary burden. Our primary concern is for the consumer—particularly the homebuyer—who will ultimately bear the cost of this scheme.

Recognizing that valid questions are raised concerning the role of financial institutions in inner city decline and development, it is our view that more study should be given to the problem before embarking on ill-considered, costly, permanent legislation. Such a study could be conducted by the Committee or by the government agencies having expertise in the area. This could involve demonstration projects in the urban areas where the problem has been clearly identified, and it would identify the numerous factors involved in inner-city residential lending patterns and practices so that Congress and the public will be better informed regarding the decision-making process of mortgage lenders and the role played by mortgage lending in inner city decay.

JOHN TOWER.

JAKE GARN.

JESSE HELMS.

ROBERT MORGAN.

## DEPOSITORY INSTITUTIONS AMENDMENTS OF 1975

OCTOBER 10, 1975.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. REUSS, from the Committee on Banking, Currency and Housing, submitted the following

### REPORT

together with

### ADDITIONAL, MINORITY, AND DISSENTING VIEWS

[To accompany H.R. 10024]

The Committee on Banking, Currency and Housing, to whom was referred the bill (H.R. 10024) to extend the authority for the flexible regulation of interest rates on deposits and share accounts in depository institutions, to extend the National Commission on Electronic Fund Transfers, and to provide for home mortgage disclosure, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments are as follows:

On page 2, beginning in line 13, strike out "savings bank the deposits or accounts of which are insured by the Federal Deposit Insurance Corporation", and insert in lieu thereof "mutual savings bank as defined in section 3(f) of the Federal Deposit Insurance Act (12 U.S.C. 1813(f))".

On page 3, beginning in line 1, strike out "savings bank the deposits or accounts of which are insured by the Federal Deposit Insurance Corporation", and insert in lieu thereof "mutual savings bank as defined in section 3(f) of the Federal Deposit Insurance Act (12 U.S.C. 1813(f))".

On page 4, beginning in line 2, strike out "savings bank the deposits or accounts of which are insured by the Federal Deposit Insurance Corporation", and insert in lieu thereof "mutual savings bank as defined in section 3(f) of the Federal Deposit Insurance Act (12 U.S.C. 1813(f))".

On page 6, line 25, strike out "Federal Reserve System" and insert in lieu thereof "Federal Deposit Insurance Corporation".

On page 7, immediately after line 18, insert the following new subsection:

(f) Section 5(b) of the Home Owners' Loan Act of 1933 is amended—

(1) in the last sentence of paragraph (1) thereof by striking out "Savings" and inserting in lieu thereof "Except as provided by paragraph (3), savings"; and

(2) by adding at the end thereof the following new paragraph:

"(3) An association may offer negotiable order of withdrawal accounts. For purposes of this paragraph, the term 'negotiable order of withdrawal account' means an account on which payment of interest may be made on a deposit with respect to which the depository institution may require the depositor to give notice of an intended withdrawal not less than thirty days before the withdrawal is made, even though in practice such notice is not required and the depositor is allowed to make withdrawals by negotiable or transferable instrument for the purpose of making payments to third persons or otherwise."

On page 11, line 9, strike out "at each office of that institution" and insert in lieu thereof "at the home office, and at least one branch office within each standard metropolitan statistical area in which the depository institution has an office".

On page 13, line 20, after "System)", insert "and mutual savings banks as defined in section 3(f) of the Federal Deposit Insurance Act (12 U.S.C. 1813(f))".

Page 15, line 16, strike out "findings" and insert "data".

On page 17, line 4, strike out "two", and insert in lieu thereof "four".

#### EXPLANATION OF COMMITTEE AMENDMENTS

During the course of committee deliberations on Section 102 and Section 305 of H.R. 10024, your committee, by amendment, made it clear that Massachusetts mutual saving banks, whose deposits are not insured by the Federal Deposit Insurance Corporation, are included within the purview of the respective sections. This amendment insures that mutual savings banks in Massachusetts, already subject to rate ceilings established by FDIC, will be treated the same as all other savings banks and savings and loan associations which are similarly subject to Federal rate control authority and that FDIC will have enforcement authority over said non-FDIC insured mutual savings banks to insure compliance with the provisions of title III.

Your committee, by its adoption of a clarifying amendment, a new subsection (f) to section 103, made it clear that all depository institutions, including savings and loan associations, are given authority to offer NOW accounts should they so desire.

Your committee, in an effort to minimize requirements and, hence, costs, without inconvenience to the consumer, amended Section 304 to require that the mortgage disclosure information required by title III be maintained at the home office and at least one branch office within each standard metropolitan statistical area in which the depository institution has an office. Your committee believes that this require-

ment should insure that the information will be, in fact, readily accessible to consumers and by use of the words "at least one branch office" encourages reporting institutions to make available the developed information at additional branch offices should actual experience indicate a need for such service to the public.

Your committee, by its amendment providing for a four-year termination, reached a judgment that that period of time would be adequate to evaluate the usefulness of the information to be provided by the provisions of Title III to both citizens and public officials, pursuant to the purpose clause of title III, section 302 (b).

#### SUMMARY OF THE LEGISLATION

H.R. 10024, addresses itself to three major areas, by separate title, that require an effective and early legislative response while study and deliberations continue on comprehensive financial reform legislation during the balance of the 94th Congress.

Title I—Regulation of Interest Rates—extends until December 31, 1977, the authority of financial regulatory agencies to establish (under Regulation Q) interest rate ceilings that may be paid by banks on time and savings deposits and by building and loan, savings and loan, homestead associations and cooperative banks on deposits, shares and withdrawable accounts. Present authority expires on December 31, 1975, pursuant to Public Law 93-495. A two-year extension will insure that deliberations not be interrupted during the present Congress as comprehensive financial reform measures are considered, including the consideration of measures designed to provide for an increase in the interest rate paid to the consumer-saver who, increasingly in recent inflationary years, has not received a fair return on his investment.

During this two-year period, a consumer safeguard provision of title III prevents further erosion in the statutory differential by specifying that the present differential of  $\frac{1}{4}$  of 1 percent shall be maintained. In those cases, by geographic area or category of accounts, where the regulatory agencies make a finding of competitive disadvantage between financial institutions, primarily due to broadened powers authorized for state-chartered institutions, should be differential be proposed for elimination, the regulatory agencies must provide 45 days' notice to the committees of jurisdiction and should neither committee, by majority resolution, disapprove, the permissive rate to be paid upon the elimination of the differential shall be the highest rate of interest permitted immediately prior to the differential elimination.

A consumer service, the NOW account, has proved to be enormously popular in the States of New Hampshire and Massachusetts during the nearly three years they have been offered in those states. A provision of title I recommends that these consumer accounts be offered nationwide at uniform interest rates with a special reserve requirement. The public will benefit, in effect, by receiving interest income on a special form of a checking account, and federally chartered institutions will be able to meet competitive challenges brought about by expanded powers currently being granted to state-chartered institutions pending final decision on comprehensive financial reform legislation by Congress.



**Title II—Electronic Funds Transfers**—The rapid emergence of a large number of experimental payments mechanisms has raised a number of significant public policy questions and in subsequent years the impact on substantive banking law and, in fact, on current comprehensive financial reform deliberations is incalculable. Public Law 93-495, approved on October 28, 1974, established the National Commission on Electronic Fund Transfers, which, unfortunately, was not activated until October 6, 1975, with the President's nomination of the Commission's Chairman and announcement of the public members of the Commission. During this one-year period, a number of actions have been taken by the regulatory agencies generating multitudinous litigation at both the Federal and State levels. As a consequence, title II extends the life of the Commission to permit two full years in which to operate and extends the requirement for an interim report for one full year. In addition, a special report is directed within six months, suggested by the Administration, to assist Congress and the financial community in resolving current difficulties being experienced as a result of a number of court actions interpreting banking law affecting business judgments involving the installation of expensive experimental payments transfer mechanisms.

**Title III—Home Mortgage Disclosure**—This title establishes a home mortgage disclosure system for the purpose of providing information to citizens, financial institutions and public officials at all levels, both Federal and State. The withdrawal of private investment capital for home mortgage loans and rehabilitation loans from an increasing number of geographic areas, principally within the nation's major metropolitan centers, exacerbates the problem of providing public sector investments to stabilize and rehabilitate essentially older neighborhoods within our cities and adds to the frustration of millions of Americans denied access to credit at reasonable rates of interest for the sale, improvement and rehabilitation of residential housing.

The process has led to the introduction of the word "red-lining" which increasingly has served to polarize elements of our society in a manner wherein the dialogue has become entirely destructive, rather than constructive. As polarization intensifies, neighborhood decline accelerates. The purpose of this title is, by providing facts, to bring to an end more than a decade of "red-lining" charges and counter-charges.

#### HISTORY OF THE LEGISLATION

On June 18, 1975, Congressman St Germain introduced H.R. 8024 and was joined by Congressman Annunzio, Ashley, Fauntroy, Mitchell and Stark as co-sponsors of H.R. 8239, an identical bill.

On June 26, July 14, 15, 16, 17 and 21, 1975, your committee acting through its Subcommittee on Financial Institutions Supervision, Regulation and Insurance held extensive hearings on all three titles and reopened the hearings to concentrate on Title I, Regulation of Interest Rates, on September 9, 10 and 11, 1975. The decision to reopen the hearings on the question of the extension of Regulation Q was based on the fact that earlier testimony, in favor of an extension, was largely pro forma in nature and the subcommittee felt that in view of financial reform deliberations, market conditions, and pending

regulatory proposals, a clear need existed to delve more deeply into a number of underlying questions particularly into the question of prospective consumer benefits. As a consequence, the most comprehensive hearings ever held on the subject of Regulation Q since its enactment in 1966 in its present form was the result.

Testimony, during nine days of hearings, was received from 59 witnesses, including neighborhood representatives, national citizens' organizations, local and state officials, each of the regulatory agencies on two occasions, financial trade associations, witnesses from the Departments of Treasury and Housing and Urban Development, the Bureau of the Census, private citizens with academic and mortgage investment backgrounds and Members of Congress. In addition, written questions were submitted to the majority of witnesses and responses have been received, evaluated and made a part of the printed hearings. The subcommittee favorably reported a clean bill, H.R. 10024, on October 2.

#### TITLE I—EXTENSION OF REGULATORY RATE CONTROL AUTHORITY

In 1966, with the enactment of Public Law 89-597, the Congress provided authority to the various Federal financial regulatory agencies to establish flexible ceilings on rates paid by financial institutions on time and savings deposits. The most recent extension was provided by Public Law 93-495, continuing present authority until December 31, 1975.

Your committee has concluded as a result of comprehensive and extended hearings that temporary rate control authority must be maintained, given today's market conditions and continued uncertainty brought about in part by extended deliberations on comprehensive financial reform at the national level and a series of state-originated actions with the potential of competitive disadvantage for federally chartered institutions. The two-year period was selected to provide for a period of certainty to our institutions for planning purposes and to preclude the necessity of interrupting deliberations in connection with comprehensive financial reform legislation now underway. Should reform legislation be adopted during this period of extension, it can be anticipated that a permanent basis will be developed for rate control authority provided adequate means can be developed to insure a fairer return to the consumer-saver, while at the same time insuring the availability of deposit funds in those institutions whose primary reason for existence will continue to be that of major suppliers of home mortgage financing. Your committee makes its recommendation for an additional extension notwithstanding its concern that Regulation Q, increasingly, is less effective in achieving one of its primary purposes, i.e., insuring a steady flow of deposits in thrift institutions available for mortgage financing. The continuation of high interest rates, the emergence of floating interest rate notes, the continued narrowing of the differential and, of paramount importance, the average yield on Treasury notes and bonds, all have contributed to a dilution of the effectiveness of Regulation Q.

A summary of recent Treasury issues furnished your committee compared with the maximum 5¼ percent permitted for passbook

accounts up to a maximum 7 $\frac{3}{4}$  permitted for a six-year certificate of deposit highlights the ineffectiveness of Regulation Q, given market conditions today and anticipated Treasury funding requirements in future years, as a disintermediation deterrent.

MINIMUM PURCHASE AMOUNTS AND AVERAGE AUCTION YIELDS OF RECENT TREASURY NOTES AND BONDS

Issue date	Security	Average auction yield	Minimum purchase amount	Issued to the public (billions)
Aug. 15, 1975—7 $\frac{1}{8}$	May 15, 1978—N	7.94	\$5,000	\$3.0
Aug. 15, 1975—8 $\frac{1}{8}$	Aug. 15, 1982—N	8.14	1,000	2.0
Aug. 15, 1975—8 $\frac{3}{8}$	Aug. 15, 2000—N	8.44	1,000	.8
Aug. 29, 1975—8 $\frac{1}{8}$	Aug. 31, 1977—N	8.25	5,000	2.0
Sept. 4, 1975—8 $\frac{3}{8}$	Sept. 30, 1979—N	8.54	1,000	2.0
Sept. 30, 1975—8 $\frac{3}{8}$	Sept. 30, 1977—N	8.44	5,000	3.0
Oct. 7, 1975—8	Feb. 29, 1978—N	8.10	5,000	2.0
Oct. 22, 1975—8 $\frac{1}{8}$	Dec. 31, 1978—N	8.14	5,000	2.5

A number of witnesses, however, emphasized strongly that Regulation Q was never intended to protect thrift institutions from disintermediation: that in 1966 disintermediation was not the problem, but that the problem was the churning of deposits between financial institutions and the loss of deposits from savings and loan associations to commercial banks. John Horne, former Chairman of the Federal Home Loan Bank Board, emphasized this basic point, which has been lost sight of in the intervening years, in a letter to the subcommittee in which he stated, in part:

This restructuring of Regulation Q was occasioned primarily by the fact that in December, 1965, the Fed set interest rates on deposits in excess of that which the thrift industry could afford with the result that depositors transferred hundreds of millions of dollars from the thrift industry to commercial banks.

Regulations implementing the new law were issued September 22, 1966, and the flow of money from thrift institutions to banks ceased immediately. The so-called "wild card" of July, 1973, was the first time since September, 1966, that the thrift industry suffered a heavy outflow of deposits to banks. You remember that story of course, and that eventually the use of the "wild card" had to be curtailed to avoid a potentially dangerous situation for the thrift industry.

Norman Strunk, Executive Vice President of the United States League of Savings Associations, in his testimony before the Subcommittee, likewise, emphasized the identical point in the following manner:

\* \* \* Regulation type ceilings were never intended to protect thrift institutions from the competition of the money market. Regulation Q ceilings were intended to prevent banking rate wars, to prevent financial institutions from ruinous and cutthroat competition with each other and, frankly, to prevent the large money market banks that have such great profit opportunities from grabbing up all the savings dollars in this country—liquidating not only the thrift institutions, but the smaller commercial banks in the process.

Accordingly, your committee contends the extension of Regulation Q for an additional two-year period is essential to insure stability, particularly as expanded consumer lending and investment powers continue to be the subject of debate and implementation.

A number of witnesses expressed their concern over the narrowing of the differential which has taken place, by regulatory agency action since the adoption of Regulation Q in its present form in 1966. Rates authorized are as follows:

MAXIMUM INTEREST RATES PAID ON SAVINGS DEPOSITS AT COMMERCIAL BANKS AND THRIFT INSTITUTIONS

	[In percent]	
	Commercial banks	Thrift institutions
Sept. 26, 1966	4.0	4.75
Apr. 19, 1968	4.0	4.75
Jan. 21, 1970	4.5	5
July 6, 1973	5.0	5.25
Nov. 1, 1973	5.0	5.25
Nov. 27, 1974	5.0	5.25
Dec. 23, 1974	5.0	5.25

Your committee was urged to restore the differential to  $\frac{1}{2}$  of 1 percent as economic conditions permit, in effect prior to the infamous "wild card" certificate of deposit experiment which necessitated emergency action by the Congress by its adoption of S.J. Res. 160, Public Law 93-123, approved October 15, 1973. Your committee concluded that in the interest of certainty and stability that an interest rate differential of at least  $\frac{1}{4}$  of 1 percent shall be maintained. The regulatory agencies, however, are not precluded from increasing the present differential when economic conditions so warrant.

In recognition of the fact that regional and local conditions can create competitive inequities due to the nature of our dual banking system, your committee recognizes the need for the regulatory agencies, upon a finding of competitive disadvantage, to lessen or eliminate selectively the differential by geographic areas and category of accounts. However, such action can only be implemented after a finding of competitive disadvantage and with the further proviso of a 45 day notification period to committees of jurisdiction and neither committee, by majority resolution, disapproves within said 45 day period. The inability of virtually all witnesses to predict a reasonable period in the future as to when the consumer-saver might expect to benefit with a higher passbook interest rate assuming the enactment of financial reform legislation prompts your committee to require that in the event of the elimination of the differential under a specific finding of disadvantage, that the commercial banks will be permitted to pay the higher rate, enabling the saver to receive the higher rate of interest on their deposits at either a commercial bank or thrift institution in such areas. Your committee considers this to be a modest step indeed, but it does serve to underscore the necessity to keep clearly in mind, during comprehensive financial reform deliberations, that public understanding and support will be enhanced by the provision of long delayed benefits to the millions of small depositors of our financial institutions.

As financial reform deliberations proceed, your committee believes it can benefit during the two-year extension of Regulation Q from



reports submitted each six months, not merely a summary of statistics, of the impact of expanded lending and investment powers on housing portfolios in those states where state-chartered institutions either now have, or will have such powers. Accordingly, the financial regulatory agencies are directed to submit their findings and recommendations to the committees of jurisdiction during the extension period with a termination of the requirement at such time during the period comprehensive financial reform legislation is enacted.

Your committee recommends the repeal of the prohibition on NOW (negotiable order of withdrawal) accounts adopted by Public Law 93-100. The provisions of Public Law 93-100 restricted NOW accounts to the States of Massachusetts and New Hampshire on an experimental basis, authorizing all financial institutions to offer such accounts with regulatory jurisdiction conferred upon the Federal Deposit Insurance Corporation during the course of the experiment. Reports have been received periodically from FDIC and during the course of recent hearings, testimony was received from FDIC Chairman Wille, Federal Reserve Board Governor Mitchell, and Acting Federal Home Loan Bank Board Chairman Marston as to conclusions to be drawn from the NOW account experience in Massachusetts and New Hampshire. In addition, testimony was received from association witnesses attesting to the fact that NOW accounts have been immensely popular and have fully demonstrated that they do indeed provide a vitally needed consumer service. The NOW account, in effect, provides consumer-savers with the services of a checking account permitting the average working man to earn interest on funds deposited in such accounts. Governor Mitchell, after commenting on other means in effect to receive interest on demand deposits, such as by use of telephonic transfer of funds from savings accounts to checking accounts, concluded:

\* \* \* I think I would call it a success—the NOW account, not only from the standpoint of the public, but also perhaps from the standpoint of the institutions \* \* \*.

Your committee concludes that the consumer should no longer be asked to await the fruits of comprehensive financial reform and recommends the authorization of NOW accounts for all financial institutions desiring to respond to obvious consumer demand. By specifying that a special reserve requirement be established and that a uniform rate be determined by the Federal Reserve Board, after consultation with each of the regulatory agencies, your committee believes that adequate regulatory control will exist to proceed in a deliberative manner, profiting from the experience gained in New England. Thus, the time consuming and costly means employed throughout the country referred to by Governor Mitchell to, in effect, have a NOW account, will be eliminated and federally chartered institutions in those states that now authorize or are in the process of authorizing expanded consumer lending and investment powers will have a competitive service that will minimize the threat of competitive disadvantage as Congress proceeds with its review of comprehensive financial reform legislation.

## TITLE II—IMPACT OF ELECTRONIC FUND TRANSFER SYSTEMS

Congress, in anticipation of the impact of the rapid emergence of electronic funds technology, established the National Commission on Electronic Fund Transfers by enactment of Public Law 93-495, approved October 28, 1974. The conferees, after emphasizing the need for a thorough study and investigation, stated prophetically, in light of developments in the nearly one year that has elapsed since enactment:

The conferees, however, believe further that during the existence of the study commission that federal agencies involved in electronic funds transfers, as well as those engaged in such activity in the private sector, recognize that potential payments mechanisms are in an experimental stage with a number of significant public policy questions unresolved, and hence all such efforts are subject to change and modification.

To underscore the importance of the Commission, Congress approved a \$500,000 appropriation in the closing days of the 93d Congress so that the work of the Commission could go forward without delay. Unfortunately, the President did not act until October 6, 1975, to activate the Commission by nomination of the Chairman and announcement of the public members of the Commission. During the almost one-year delay, a number of "experiments" have been challenged in court affecting business judgments involving the installation of expensive experimental payments transfer mechanisms. Regulatory agency approvals and interpretations, impacting on state law, have been brought into question, adding to the confused situation existing today.

Your committee believes that it is imperative that the Commission begin to function without further delay. During the course of hearings, a number of constructive suggestions were proposed by the Administration and by each of the financial regulatory agencies. Your committee, in adopting these recommendations, anticipates that the closest possible relationship will be maintained with the Commission during the course of its study and believes that Commission advice will be invaluable, in reaching judgments as to the numerous public policy questions involved in electronic fund transfer technology. The importance of a thorough understanding of electronic fund transfer technology as a integral part of comprehensive financial reform deliberations cannot be overemphasized.

As a consequence, your committee recommends that the life of the Commission be extended for a full two-year period from the date of confirmation of the Chairperson or the appointment by the President of an Acting Chairperson. An interim report containing Commission findings and recommendations shall be submitted to Congress within one year from date of confirmation or appointment of Acting Chairperson.

Your committee has concluded that an additional report to be submitted to the committees of jurisdiction within six months from date



of enactment is essential in view of the delay experienced. The report shall review all existing electronic fund transfer systems and pending applications, and shall contain the Commission's plan for monitoring a representative number of experiments. Recommendations for the guidance of Federal financial regulatory agencies and a summary of all lower and appellate court decisions, both Federal and State, shall also be furnished. Inevitably, any consideration of the installation of payments transfer mechanisms involves potential conflicts with branching laws, both Federal and State. Accordingly, your committee has directed that the first report shall contain a discussion of the implication of the experiments and recommendations as to the need for further legislation to be considered during deliberations on comprehensive financial reform legislation.

### TITLE III—HOME MORTGAGE DISCLOSURE

#### HISTORICAL BASIS FOR THE LEGISLATION

The words "red-lining" or "mortgage disinvestment" have come to symbolize the "facts of failure" in this nation, despite a full decade—and even longer—of good-faith efforts by both parties under three Presidents to insure the realization of the American dream: "a decent home and a suitable living environment for every American family". All continue to subscribe to the Declaration of Purpose of the Housing Act of 1949, restated by Section XVI of the Housing and Urban Development Act of 1968. At the same time, Congress continues to be confronted with the reality of a denial of access to credit at any rate and on any terms for citizens of entire neighborhoods in our cities.

The 1968 Act asserted that our national housing goal could be substantially achieved "if the nation were to construct or rehabilitate 26 million housing units within the next decade." Despite intensive efforts to devise a way to measure rehabilitation activity, we have not been successful in developing a feasible system, primarily due to the fact that there is no known way to measure the volume or quality of private rehabilitation efforts. Thus, when we are confronted with the reality of withdrawal of private investment from residential neighborhoods in our cities, there does indeed exist a valid national purpose in acquiring the information to be provided by Title III.

In the same Housing Act of 1968, Congress attempted to provide mortgage credit for our cities by requiring FHA to assume a role that private industry either could not or would not accept. Shortly thereafter it became apparent that FHA was ill-equipped and little-prepared for the role entrusted to that agency. Charges of wide-spread corruption, both within and outside the agency, began to surface, responded to by several congressional committees with investigations in a number of major cities. Many of these charges, regrettably, have since been substantiated and the net result has been a worsening of conditions in the cities insofar as mortgage credit is concerned, either private or governmental.

The Subcommittee on Financial Institutions Supervision, Regulation and Insurance on March 5, 1974, during hearings on H.R. 12421, the Consumer Home Mortgage Assistance Act of 1974, urged more decisive action by the Federal Home Loan Bank Board to no avail.

Subcommittee Chairman St Germain, in his opening statement stated the following:

Entire viable neighborhoods of our major central cities, such as Chicago, \* \* \* find their neighborhoods deteriorating to an alarming degree due to the failure of our financial institutions to provide access to credit for the sale and resale and rehabilitation of existing homes, while these same institutions continue to receive the vast majority of their deposits from the citizens of these neighborhoods who desire to continue to remain in the neighborhoods of their birth.

During questioning of then Chairman Bomar of the Federal Home Loan Bank Board, the following colloquy is particularly revealing and suggests a compelling reason for the necessity of the adoption of Title III:

Mr. ST GERMAIN. All they want to know is what institutions have a commitment to the neighborhoods from whence they are getting their deposits. Are they making a fair reinvestment in these neighborhoods?

Now, doesn't the Board have the necessary authority to require this information?

Mr. BOMAR. Mr. Chairman, our attorneys tell me that we do have the authority to require it. We have not required it.

Mr. ST GERMAIN. You have been very reluctant, I get the impression that the Federal Home Loan Bank Board and your regional office in Chicago has been very reluctant to require this information since you do have the authority.

Thus, with this background in mind, the time has clearly come for Congress to intercede by working cooperatively with the states in the development of a mortgage disclosure system that will bring to an end the confrontation tactics of the past decade. The establishment of an informational network will assist citizens, financial institutions, and governmental officials at all levels in the absolutely essential task of devising ways and means to create conditions in our cities whereby a true partnership of public and private resources, working with responsible citizens may once again look to the day when private capital flows back to the cities.

#### NEED FOR MORTGAGE DISCLOSURE INFORMATION

The paramount issue confronting your committee and the Congress is not the existence of disinvestment, but rather how long this practice will continue to plague our nation's communities and other urban areas that are struggling to preserve the viability of their neighborhoods to prevent a downward spiral into decay and neglect. Our national housing crisis has become a plague on all our homes, all our neighborhoods and all our cities. No federal housing program can ever hope to fulfill our twenty-five year old national housing goal of a "decent home and a suitable living environment for every American" without a firm commitment from the private sector and, most importantly, from our nation's financial institutions.

This legislation is only the beginning of a new policy, a new hope for our cities and our neighborhoods. It is an essential step in re-exam-

ining the preconditions leading to neighborhood deterioration. One of the preconditions, which this legislation addresses, is the availability of mortgage credit on reasonable terms and conditions for existing housing—particularly housing in older, ethnic and urban areas.

Today, communities populated by the backbone of our cities and nation—the blue-collar worker—are being deprived of adequate credit—the credit necessary to purchase a home or make improvements to existing property simply because of the location of the property. In many instances, after years of placing their savings in local financial institutions, they are now confronted with the inability to improve their property, or for prospective neighbors to purchase homes. In many instances, the dollars they have been saving are being used to develop newer areas, not to preserve, maintain and enhance their local ones. The refusal of local lenders, throughout the country, to make loans, not on the basis of the creditworthiness of the individual applicant or the soundness of the particular house, but on the very subjective judgment on the part of the lender that the neighborhood may be “declining” has accelerated the process of neighborhood deterioration and discouraged revitalization of cities.

As one witness stated,

At first the signs are subtle and difficult to detect: higher down payment on shorter mortgage periods are required, higher interest rates on minimum property values are set. Home improvement loans become difficult if not impossible to obtain, causing housing to deteriorate prematurely. Prospective home buyers are encouraged to buy their home in a new suburban development rather than in an urban neighborhood which according to the lending official is on the decline. Existing homeowners begin to panic and sell to speculators.

“High risk” is the reason given by many of the defenders of these discriminatory lending practices. They state that many communities within our cities do not merit conventional credit, because such loans would be unsafe and jeopardize the security of the depositors’ savings. However, none of these same people have provided any actuarial data to support such assumptions and practices.

“High risk to lenders,” as described by Mayor Mergell of Inglewood, California, means:

an area or neighborhood likely to deteriorate physically and/or neighborhoods undergoing ethnic transition. Buyers and homeowners unable to obtain financing for mortgages or home improvement loans are virtually forced to buy elsewhere, some encouraged to do so by the lenders. Given the lack of money to make the necessary repairs, the neighborhood rapidly takes on the characteristics of a slum—severe property maintenance problems, high rate of foreclosures, housing abandonment, not to mention the attendant negative social and economic consequences for the area. Owner/occupants representing good, stable families move out; absentee landlords and speculators move in. The prophecy fulfills itself.

Mass introduction of FHA and VA financing can be equally self-destructive of a neighborhood. Because conventional mortgage money is unavailable, home buyers seek federally

insured loans. Again, marginal income groups, dependent on a stable economic situation, may be forced to foreclose, leaving pockets of abandoned foreclosed homes. Abandoned houses are prime targets for vandalism, soon become property maintenance headaches, and usually remain vacant and boarded up for lengthy periods of time.

Your committee noted from well documented testimony that within these “high risk” areas, many residents do in fact have substantial capital and security. As a representative for the Governor of Illinois pointed out:

Under a recent voluntary disclosure program administered by the Federal Home Loan Bank Board in Chicago, the residents of the individual ZIP code area 60622 were shown to possess over \$103 million in savings and checking accounts in 26 institutions around the city.

This disclosure program was voluntary and thus many banks and savings and loan associations refused to participate. Yet even with limited information, it was obvious that this area on the city’s near northwest side, suspected by almost all lenders to be capital deficient and high risk, possessed considerable financial resources. There is no justification for depriving these residents of the power of their capital.

Additionally, testimony received by the Illinois Governor’s Commission on Mortgage Practices from the assistant counsel for the Illinois Federal Savings and Loan Association indicated that “upward of 85 percent of the conventional mortgage loan portfolio, of that \$48 million institution, was invested in all black or integrated areas on the south side of the city of Chicago. This is an area where other institutions would never think of making conventional loans because of suspected high risks. Yet Illinois Federal has managed to keep its losses from such city lending to a minimum and far below any realization of the alleged catastrophic results predicted by many mortgage lenders \* \* \*”

While your Committee fully recognizes the fiduciary responsibilities of financial institutions, it also recognizes the fact that they likewise have an obligation to meet the bona fide credit needs of the community in which they were chartered, both legally and economically.

As one witness stated in discussing fiduciary responsibility:

\* \* \* I think that I have only heard this word used when it comes to one loan, to one individual, in the one community, but using the data that was printed in Fortune magazine and Business Week on the fiduciary responsibility, what were the banks thinking of when they bankrolled the office buildings, when they threw away all underwriting standards, which usually before an office building was built, it had to be 75 percent rented \* \* \*. It was never talked about like with the REIT Study on second homes and condos in Arizona and Florida, where again the industry lost their shirt on it. But nobody has ever questioned them on fiduciary responsibility, in all of that, or in big blocks of new housing going up in the outer ring suburbs, like in our case, on the lakefront, all the



condominiums going up on the lakefront, rather than our communities. And the people of our communities, the young people, are being told, the only American place to live is in the far suburbs or down at the Loop in a condo. And we are saying that communities have to survive. So again, if you are asking questions on fiduciary responsibility, I think that is the point—who regulates, who monitors, and where is their fiduciary responsibility?

While your committee recognizes that arbitrary disinvestment by lending institutions is only one of the many causes of urban decline, it believes that the disclosure information required by this title is a vital and essential step in the process of reversing and preventing neighborhood decline. Disclosure will help people exercise their right to inform about lending practices and patterns in their neighborhoods and assist public officials at all levels "in their determination of the distribution of public sectors investments in a manner designed to improve the private investment environment." Additionally, disclosure by lending institutions, as stated by David M. deWilde, Acting Assistant Secretary, Housing Production and Mortgage Credit—Acting FHA Commissioner, Department of Housing and Urban Development, may:

\*\*\* be useful in helping local officials identify the areas which lenders perceive, rightly or wrongly, as usually high investment risks. Identification of these areas could be useful in preparing community development housing assistance plans and in designing and evaluating specific programs of activities. Further, I believe that with this information local officials may be in a better position to begin working out with lenders some common understandings as to the problems of particular areas and ways of dealing with these problems.

Your committee believes disclosure will identify the beginning stages of redlining, the point at which a neighborhood can be saved. It also will provide a vehicle for neighborhood residents, public officials and financial institutions to enter into partnerships with each other in joint efforts to plan reinvestment strategies for a declining neighborhood. As one very distinguished member of your committee succinctly stated:

\*\*\* This Congress, in the Housing and Community Development Act of 1974, said that henceforth it will become public policy to assure that communities the length and breadth of the nation, receive on an annual basis a sum, certain over a period of time, tens upon tens of billions of dollars, for the explicit purpose of assuring the renovation, the revitalization, the stability of inner city neighborhoods. These funds, as we provided in the statement of purposes, and as we indicated when we delineated the areas of activity which can be supported by these funds—we expected to be used for those types of public investment for services and facilities that would increase the attractiveness of the marketplace, the private marketplace. In short, just as an example, make more attractive the very neighborhoods that we are now

talking about in this bill in the eyes of those who supply mortgage credit.

So, if we are going to be doing that, as indeed we are, then of course it is necessary for us to know the extent to which the private market is responding. If it is responding well, fine. If it is not, then we should know about it, because as a matter of national policy we are investing these billions of dollars along these lines \* \* \*. I strongly suggest not that lending institutions have been playing the culprit's role at all, but simply that this information, this added information is essential if the public purposes to which we have ascribed in the past are to be carried out.

#### FEASIBILITY OF CENSUS TRACT REPORTING

As a result of testimony received by your Committee from the Bureau of Census, the original bill was redrafted to reflect statements made concerning the use of census tract reporting. As adopted by your committee H.R. 10024 provides for disclosure by census tract within standard metropolitan areas, where available at reasonable cost, as determined by the Federal Reserve Board; otherwise to be reported by ZIP code. Your Committee recognizes—as the Census Bureau has stated, that "The geographic base files on which tract street indexes depend are in various stages \* \* \*. It is not true that all of the files are out of date, or that none will be up-to-date until 1978. It is also not true that on average the files are 30 percent inaccurate. It is true that as of the 1970 Census, the files covered in the aggregate approximately 70 percent of the population included in all SMSA's, because the files were intended to cover the urbanized portion of each SMSA." Since the disclosure required by your committee bill is directed at disinvestment practices primarily occurring in urban areas, the fact that the outlying suburban areas were not included is not of particular concern to your committee. However, recognizing the difficulties in the present census tract systems on the grounds of availability, cost and reliability, your committee bill provides the mechanism for revising, refining and improving the present system to facilitate compliance with the mortgage disclosure requirements by census tract for subsequent fiscal years.

Since your committee recognizes the importance of reporting by census tract, as opposed to reporting by ZIP code, it is important to note that the Census Bureau will be able to provide "two kinds of assistance on request and at moderate costs." As stated by the Census Bureau, "For urbanized areas of SMSA's we can provide block maps which show every street within each tract, the tract numbers, the location of the tract boundaries. Second, the Bureau could prepare tract street indexes from its geographic base files. The indexes would show for every street the range of addresses within individual tracts \* \* \*. I should also like to point out that a geographic base file on which a tract street index is based is still useful even if five years old. In some of the central portions of an urbanized area, where there may have been relatively little change in street patterns, that portion of the index will still be quite accurate today. Other portions of the file will be out-of-date until the update for the particular area has been com-

pleted and areas of new construction developed since 1970 have been incorporated.

"The Bureau's program for updating geographic base files for all SMSA's by 1978 is geared to our requirements for the 1980 Census. It is possible, given a clear mandate and appropriate resource support from the Congress and the Administration, that our schedule of activities could be accelerated."

Additionally, based upon the experiences of California, State-chartered savings and loans which have been required to furnish monthly reports on loan information by census tract since 1964, your committee believes that the fear expressed relating to the accuracy of collecting data by census tract are unwarranted. The data collected monthly by the California Savings and Loan Commissioner for its "Loan Register" is as follows:

Title 10, Section 116. Each association shall keep a loan register accounting for all real estate loans which it makes or purchases . . . Information regarding loans appearing in the loan register shall consist of, but not be limited to the following:

- (a) Loan number.
- (b) Late loan entered on books.
- (c) Date of recording of trust deed or mortgage.
- (d) Name of borrower.
- (e) Location of security (by city and state, and by census tract if such information is available).
- (f) Type of improvements.
- (g) Purpose of loan (speculative construction, construction for owner, purchase of property, refinance, other, purchased loan, or collateral loan).
- (h) Amount of loan.
- (i) Secondary financing (where information is available).
  - (1) Amount.
  - (2) Holder.
- (j) Current market value of the security property.
- (k) Selling price of property on loans made for the purchase of property.
- (l) Amount of discount or premium on purchased loans.
- (m) Interest rate.
- (n) Method or repayment (unamortized or amortized).
- (o) Loan fees (not required for purchased loans).
- (p) Maximum loan permitted under loan limitation applicable to the particular property. Express as a maximum percent of loan to value.

In commenting on this system, Donald E. Burns, Secretary of Business and Transportation Agency, recently informed your Committee that, "As with almost any new system of data collection, there is bound to be a certain amount of confusion leading initially to significant errors. However, our experience indicates that this problem

is only temporary. Currently, the average rate of detectable errors for census tract information reported by savings and loan associations chartered by the State of California is only one percent."

Your committee believes that 11 years experience of our Nation's largest savings and loan state with census tract reporting speaks for itself as to the feasibility and accuracy of such reporting.

#### REPORTING BY CENSUS TRACT VERSUS ZIP CODE

Your committee believes that the mortgage data information by zip code is far less useful than census tracts for analyzing red-lining patterns. As noted by Donald E. Burns, Secretary, Business and Transportation Agency, State of California:

The boundaries of census tracts have been drawn by the Bureau of Census to reflect to the extent feasible geographic areas with homogeneous social and economic characteristics. Thus, they tend to correspond to identifiable neighborhoods to a much greater extent than do zip codes, since zip code boundaries have been drawn with a completely different purpose in mind. In addition, since the geographic area encompassed by a zip code tends to be significantly greater than that covered by a census tract, the danger of data by zip code obscuring redlining practices in particular neighborhoods is greatly exacerbated.

There are a number of important reasons why your committee believes disclosure should be by census tract which were well documented by numerous witnesses. In densely populated cities where redlining is a particular problem, ZIP codes tend not to conform to neighborhoods, whereas census tracts do. Within a particular zip code, you could have a declining neighborhood and a very expensive highrise neighborhood. Financial institutions, of course, welcome the opportunity to make loans to the expensive high rise neighborhood, but in using zip code disclosure, it is impossible to determine whether loans were made in the declining neighborhood.

Mortgage disclosure information by census tracts for which data such as median income of families, type of home, age of home, value of home, tenure race and vacancy status, etc., is available, your committee believes is essential to enable public officials to determine if in a particular neighborhood, having certain socioeconomic characteristics, there exists a policy of denying mortgage credit. This type of data is vitally needed and, for this reason, title III of H.R. 10024 calls for the development of a National Mortgage Information System to furnish public officials, at all levels of government, investment information for particular neighborhoods to assist them in evaluating the problems of financial institutions and in the process, by use of public sector investments, improve the private investment environment. Recognizing the importance of this information, your committee adopted an amendment extending the termination of title III of H.R. 10024 from two to four years in order to provide an adequate period of time to evaluate the usefulness of the data to be provided both citizens and public officials.



## COSTS

According to information received by your committee during its hearings from the Bureau of Census, it is your committee's judgment

that the cost of mortgage loan information reported by census tract once a year will not place an excessive cost burden on financial institutions. Although H.R. 10024 would exempt institutions of \$25 million or less for the first year from the disclosure requirement as well as permit other institutions to report by zip code if census tracts are not readily available at a reasonable cost, your committee believes the cost estimates given by the census bureau are most reasonable. According to Mr. Barabba:

\* \* \* the Census Bureau questioned some commercial firms specializing in the use of mailing lists and determined that based upon an input of 50,000 items, coding of addresses to census tract by computer would cost from \$37 to \$80 per thousand. (*3.7 cents to 8.7 cents per item.*)

The percentage of match on the computer would be from 85 to 95 percent. This assumes that the mortgage addresses are within the areas covered by the coding guides—that is the central cores of the urbanized areas—and that coding guides are available. In areas not covered by coding guide, a hand tally would cost about \$1.50 per case.

Additionally, your committee was furnished information from the California Department of Savings and Loan, which indicated that:

The computer costs for an association of moderate size (\$100 million in assets) to produce our Loan Register report should be less than \$600 annually. A billion dollar asset association in California indicated that its monthly computer costs would be roughly \$1,200 per year. (*\$100 per month.*) The associations who do not use the computer to provide the Department with loan register data are smaller ones whose loan activity is also small, so that costs to them on an annual basis is minimal.

Based upon these cost estimates, it is significant to note that the data required for the California Loan Register is much more detailed, as indicated earlier in this report, than what is required by title III of H.R. 10024. These cost estimates and the firms that specialize in the use of mailing lists on a nationwide basis, in your committee's opinion, speak for themselves both on the costs and feasibility of census tract reporting.

## STATE AND LOCAL ACTION

Your committee notes that disclosure requirements have been initiated in several jurisdictions at the State and local level. The Massachusetts Commissioner of Banking issued a directive requiring certain mortgage and deposit data and providing a petition procedure for depositors. In Illinois, the Governor recently signed into law a bill requiring all institutions operating or with a place of business in the State to file a semiannual report by census tract and zip code. In

California, where state authorities have already been collecting loan data by census tract for 11 years, the Governor recently proposed regulations requiring monthly public disclosure by census tracts of savings and lending data, establishing a board of inquiry to review complaints of any rejected loan applicant, and public hearings on all branch applicants. A number of cities are also considering adopting an ordinance similar to one in Chicago which requires disclosure by institutions desiring to serve as a depository of public funds.

Your committee believes that the trend at state and local levels to require mortgage disclosure makes it imperative that Congress act. If the Congress does not set at least a Federal minimum disclosure requirement by law, state regulated institutions required to submit mortgage disclosure information could well be placed in a competitively disadvantaged position with respect to Federally regulated institutions. Your committee believes that mortgage disclosure by only state institutions would not meet the public's needs nor foster the development of the dual banking system. Inadvertently, we would be encouraging State institutions to apply for Federal charters in order to escape disclosure. Your committee believes we cannot allow State-chartered institutions, having to disclose, a safe haven from their public obligations. "Unless there is uniformity, we will find one group seeking refuge in another set of laws," noted one witness.

Your committee fully recognizes that states have and must continue to have the flexibility needed to respond to unique problems creatively without jeopardizing the state system. To date, in many jurisdictions where disclosure is required, federally chartered institutions have failed to comply. To insure compliance by Federal institutions with stricter state disclosure statutes, H.R. 10024 makes it clear that Federal institutions must comply with state law and regulations, even if it should be inconsistent with Federal law by requiring maintenance of records with greater geographic or other detail, or provide for greater disclosure than is required by Federal law. H.R. 10024 would apply to all financial institutions, with the proviso that state law would take precedence in states with "substantially similar" requirements, because your committee recognizes, in the final analysis, solutions to the problems of urban disinvestment are going to come at the local and state level.

## CHARTER OBLIGATIONS

Your committee has found that financial institutions have sometimes invested the savings of neighborhoods or communities, in which they are based and were originally chartered to serve, for the more lucrative and less risky suburban markets. It recognizes that financial institutions have more than one set of obligations or responsibilities. It might be said that the only responsibility of lending institutions is its fiduciary responsibility—to protect the safety of funds on deposit and in so doing to assess the risks involved with regard to lending in certain areas—to make sure that the loans are prudent. Your committee fully recognizes this responsibility, but it also recognizes that financial institutions do have a responsibility to the community in which they were chartered, both legally and economically. This legislation in no way requires financial institutions to make unsafe or

unsound loan or loans which are not prudent and violate their fiduciary responsibility to protect the funds on deposit. In fact, your committee, during its subcommittee's consideration of title III, adopted an amendment stating that, "Nothing in this title is intended to, nor shall be construed to, encourage unsound lending practices or the allocation of credit."

Your committee has found that there have been too many instances in which financial institutions have denied credit where it was not necessitated by the responsibility of the institution to vouchsafe the safety of depositors funds. There have been too many instances where arbitrary decisions have been made by financial institutions without even an appraisal—such as using the age of a house as an indication of its soundness. There have been too many instances where home improvement loans, mortgage loans for homes in the \$10,000 to \$15,000 category have not been made because they were not "profitable," not because they were "risky." As the Acting Chairman of the Federal Home Loan Bank Board stated during the hearings, "Just strictly from an economic standpoint, . . . About ten years ago, I was in the mortgage business, and we would not take a loan under \$10,000. It was just—economically, we simply could not handle it. In order to handle it, we would have to charge such a high fee or interest rate that it was not worth the public relations black eye that we would get."

"Thrift institutions are in a real earnings squeeze today, and this is one of the reasons that they go for the larger home loans. It does not cost you any more to put on a \$50,000 loan than it does a \$10,000 loan."

Financial institutions do have a community responsibility, and your committee, in recommending adoption of title III of H.R. 10024, is hopeful that it will bring about dialogue in an atmosphere of trust and confidence where individual citizens, responsible public officials and financial institutions can work together to insure an ample supply of mortgages credit to the millions of Americans living in our Nation's cities.

#### CONCLUSIONS

Each of the three titles of H.R. 10024 address themselves to serious problems existing today affecting financial institutions and the public at large. The problems are of a growing magnitude and your committee recommends expeditious and favorable consideration. Financial institutions need the stability and certainty provided by title I. The long-forgotten, small consumer-saver is entitled to the protection provided by title I and to the new consumer service recommended.

Electronic funds transfer technology is upon us and carries with it public policy questions of the most serious magnitude. It is imperative that the National EFTS Commission receive the fullest possible support in the clearest manner from Congress and, as a consequence, the adoption of title II, without delay, is urged.

Reform for the sake of reform is meaningless. Much has been said in recent years about the need for comprehensive financial reform legislation to enable our Nation's financial institutions to better serve the credit needs of our society. Title III addresses itself to the fact that millions of Americans in our cities are denied access to credit on any terms. Their numbers are growing daily in every major city. These hardworking Americans, utilizing every resource at their command,

are not seeking subsidy or other special treatment, but are demanding equal access to credit for mortgage assistance, home improvement loans, rehabilitation loans, etc., as they seek to stabilize their neighborhoods. In many cases, these are the neighborhoods of their birth in which they choose to remain. If our cities are to survive, it can be only by neighborhood stabilization which requires a partnership of public and private capital working with the responsible citizen. The purpose of title III is to begin the process of developing information that will enable this partnership to be formed and to flourish. Your committee urges its adoption.

#### SECTION-BY-SECTION ANALYSIS

##### TITLE I—REGULATION OF INTEREST RATES

SEC. 101—Provides for a two-year extension of flexible rate control authority, known as Regulation Q, from December 31, 1975, to December 31, 1977.

SEC. 102(a)—Provides for a statutory differential of not less than one-quarter of one percent; however, regulatory agencies retain the authority to eliminate the differential in selected geographic areas upon showing of a competitive disadvantage.

SEC. 102(b)—In the event the regulatory agencies make a finding of a competitive disadvantage between financial institutions and recommend the elimination of the differential, such elimination shall not take effect without 45 days prior notification to the standing committees of jurisdiction and provided neither committee disapproves.

SEC. 102(c)—In any case where the differential is eliminated, commercial banks will be permitted to pay up to the ceiling permitted under Regulation Q.

SEC. 102(d)—During the two-year extension of Regulation Q, the financial regulatory agencies shall study the impact of expanded lending and investment powers authorized state-chartered institutions on the respective institutions housing portfolio, giving special emphasis to possible disintermediation effects. Reports are required to be submitted to the Congress at six-month intervals, with the first report to be submitted on or before June 30, 1976.

SEC. 103(a)—Repeals section 2 of Public Law 93-100, which placed a prohibition against the offering of negotiable orders of withdrawal (NOW) accounts, except in the states of Massachusetts and New Hampshire.

SEC. 103(b)—Permits NOW accounts to be offered nationwide at uniform interest rates and provides for reserve requirements on such accounts to be set by the Federal Reserve.

##### TITLE II—ELECTRONIC FUND TRANSFERS

SEC. 201—The National Commission on Electronic Fund Transfer Systems, established under Public Law 93-495, is amended to provide for the submission of its interim report one year from the date of confirmation of the chairperson, or appointment of acting chairperson. The submission of its final report and recommendations shall be two years from the date of such confirmation or appointment of acting chairperson.



SEC. 202—The Commission shall monitor and evaluate all EFTS experimentation and within six months after the date of enactment of this section shall transmit a report to the Congress containing its proposals for monitoring experimentation occurring with respect to all EFTS experiments, its recommendations for the guidance of federal financial regulatory agencies, a summary of all lower and appellate court decisions relating to EFTS, and a discussion of the implication of the experiments and recommendations as to the need for further legislation.

TITLE III—HOME MORTGAGE DISCLOSURE

*Short Title*

SEC. 301—Title “Home Mortgage Disclosure Act of 1975”.

*Findings and Purpose*

SEC. 302(a)—States finding that depository institutions have sometimes contributed to the decline of certain geographic areas by their failure to provide adequate home financing to qualified applicants on reasonable terms and conditions.

SEC. 302(b)—The purpose is to provide sufficient information to enable citizens to determine whether depository institutions are fulfilling their obligations and to assist public officials in their determination of the distribution of public sector investments.

SEC. 302(c)—States finding that nothing in this title shall be construed to encourage unsound lending practices or the allocation of credit.

*Definitions*

SEC. 303—Defines terms used in title.

*Maintenance of Records and Public Disclosure*

SEC. 304(a)(1)—Each depository institution with a home or branch office located within a SMSA shall compile and make available to the public for inspection at the home office and at least one branch office the number and total dollar amount of mortgage loans originated or purchased by that institution.

SEC. 304(a)(2)—The information shall be itemized to disclose the number and dollar amount of mortgage loans by census tract where such tract maps are available as determined by the Board, otherwise to be disclosed by postal zip codes. Also requires the disclosure of the total number and dollar amount of mortgage loans which are secured by property located outside the standard metropolitan statistical area.

SEC. 304(b)—The information shall also be itemized to disclose the number and dollar amount of mortgage loans which are FHA insured loans made to mortgagors not intending to reside in the property securing the mortgage loan; the number and dollar amount of home improvement loans.

*Enforcement*

SEC. 305—The Federal Reserve Board shall prescribe such regulations as may be necessary to carry out the purposes of this title.

*Relation to State Laws*

SEC. 306(a)—This title does not annul, alter, effect, or exempt any person subject to the provisions of this title when complying with the laws of any state or subdivision thereof. The Federal Reserve

Board is authorized to determine whether an inconsistency exists. To the extent that the inconsistency requires the maintenance of records with greater geographic or other detail than is required, the Board may not determine that such law is inconsistent with this title.

SEC. 306(b)—Further provides that the Board may exempt any depository institution from the requirements of this title if it determines that under the law of such state or subdivision that the institution is subject to requirements substantially similar to those imposed under this title.

*Development of National Mortgage Information System*

SEC. 307(a)—The Secretary of HUD shall receive information required by this title and shall furnish such summaries to appropriate public officials and respective banking committees, in furtherance of the stated objectives of Title I of the Housing and Community Development Act of 1975.

SEC. 307(b)—The Federal Home Loan Bank Board, with the assistance of Census, HUD, Comptroller of the Currency, the Federal Reserve, the FDIC, shall develop or assist in the improvement of methods of matching addresses and census tracts to facilitate compliance by depository institutions.

SEC. 307(c)—The Home Loan Bank Board shall recommend to the respective banking committees such additional legislation as deemed appropriate to carry out the purposes of this title.

*Effective Date*

SEC. 308—This title takes effect ninety days after enactment, except in the case of any depository institution with assets of \$25 million or less, the title shall take effect fifteen months after the date of its enactment.

*Termination of Authority*

SEC. 309—The authority granted by this title shall expire four years after its effective date.

STATEMENTS REQUIRED IN ACCORDANCE WITH HOUSE RULES

In compliance with clause 2(1)(3) and 2(1)(4) of rule XI of the Rules of the House of Representatives, the following statements are made:

With regard to subdivision (A) of clause 3, relating to oversight findings, your committee finds, in keeping with clause 2(b)(1), of rule X, that this legislation is in full compliance with the provision of this rule of the House, which states:

In addition, each such Committee shall review and study any conditions or circumstances, which may indicate the necessity or desirability of enacting new or additional legislation within the jurisdiction of the committee \* \* \*.

H.R. 10024, addresses itself to three major areas, by separate title, that require an effective and early legislative response while study and deliberations continue on comprehensive financial institution reform legislation during the balance of the 94th Congress.

In compliance with subdivision (B) of clause 3, your committee states that changes made by this bill involve no new budget authority.

With respect to subdivisions (C) and (D) of clause 3, your committee advises that no estimate or comparison has been prepared by the Director of the Congressional Budget Office relative to any provisions of H.R. 10024, nor have any oversight findings or recommendations been made by the Committee on Government Operations with respect to the subject matter contained in H.R. 10024.

In compliance with clause 2(1) (B) (4) of rule XI of the House of Representatives, your committee makes the following detailed statement in compliance with this rule, which states:

Each report of a committee \* \* \* shall contain a detailed analytical statement as to whether the enactment of such bill \* \* \* into law may have an inflationary impact on prices and costs in the operation of the national economy.

Inasmuch as this legislation contains reporting requirements for financial institutions and the financial regulatory agencies, there will be no inflationary impact.

In compliance with clause 7(a) of rule XIII of the House of Representatives, the following statement is made: In the development of a National Mortgage Information System, as deemed essential in section 307(b), your committee has required the Federal Home Loan Bank Board to work with the Department of Housing and Urban Development, the Bureau of Census, and the Federal financial regulatory agencies to facilitate compliance with the reporting requirements of title III by census tract in as economical a manner as possible. Because the reporting requirements of title III are prospective in nature, there is no basis upon which to calculate any additional costs insofar as the participation of the Department of Housing and Urban Development and the Bureau of Census, as required by section 307(b) is concerned. The additional enforcement and rule-writing responsibilities that would be established by the bill should be able to be carried out with the existing staffs at the agencies involved or with only a limited number of additional staff.

In compliance with clause 2(1) (2) of rule XI of the House of Representatives, the following statement is made relative to the record vote on the motion to report H.R. 10024: a total of 25 votes were cast for reporting and 12 votes were cast against reporting.

#### CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of Rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter in printed in italics, existing law in which no change is proposed is shown in roman):

#### SECTION 7 OF THE ACT OF SEPTEMBER 21, 1966

AN ACT To provide for the more flexible regulation of maximum rates of interest or dividends payable by banks and certain other financial institutions on deposits or share accounts, to authorize higher reserve requirements on time deposits at member banks, to authorize open market operations in agency issues by the Federal Reserve banks, and for other purposes

\* \* \* \* \*

#### SEC. 7. Effective December 31, [1975] 1977:

(1) So much of section 19(j) of the Federal Reserve Act (12 U.S.C. 371(b)) as precedes the third sentence thereof is amended to read as it would without the amendment made by section 2(c) of this Act.

(2) The second and third sentences of section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)) are amended to read as they would without the amendment made by section 3 of this Act.

(3) The last three sentences of section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)) are repealed.

(4) Section 5B of the Federal Home Loan Bank Act (12 U.S.C. 1425(b)) is repealed.

#### SECTION 2 OF THE ACT OF AUGUST 16, 1973

AN ACT To extend certain laws relating to the payment of interest on time and savings deposits, to prohibit depository institutions from permitting negotiable orders of withdrawal to be made with respect to any deposit or account on which any interest or dividend is paid to authorize Federal savings and loan associations and national banks to own stock in and invest in loans to certain State housing corporations, and for other purposes.

\* \* \* \* \*

#### PROHIBITION ON CERTAIN ACTIVITIES BY DEPOSITORY INSTITUTIONS

[SEC. 2. (a) No depository institution shall allow the owner of a deposit or account on which interest or dividends are paid to make withdrawals by negotiable or transferable instruments for the purpose of making transfers to third parties, except that such withdrawals may be made in the States of Massachusetts and New Hampshire.

[(b) For purposes of this section, the term "depository institution" means—

[(1) any insured bank as defined in section 3 of the Federal Deposit Insurance Act;

[(2) any State bank as defined in section 3 of the Federal Deposit Insurance Act;

[(3) any mutual savings bank as defined in section 3 of the Federal Deposit Insurance Act;

[(4) any savings bank as defined in section 3 of the Federal Deposit Insurance Act;

[(5) any insured institution as defined in section 401 of the National Housing Act; and

[(6) any building and loan association or savings and loan association organized and operated according to the laws of the State in which it is chartered or organized; and, for purposes of this paragraph, the term "State" means any State of the United States, the District of Columbia, any territory of the United States, Puerto Rico, Guam, American Samoa, or the Virgin Islands.

[(c) Any depository institution which violates this section shall be fined \$1,000 for each violation.]



## SECTION 19 OF THE FEDERAL RESERVE ACT

## BANK RESERVES

SEC. 19. (a) \* \* \*

(b) Every member bank shall maintain reserves against its deposits in such ratios as shall be determined by the affirmative vote of not less than four members of the Board within the following limitations:

(1) In the case of any member bank in a reserve city, the minimum reserve ratio for any demand deposit shall be not less than 10 per centum and not more than 22 per centum, except that the Board, either in individual cases or by regulation, on such basis as it may deem reasonable and appropriate in view of the character of business transacted by such bank, may make applicable the reserve ratios prescribed for banks not in reserve cities.

(2) In the case of any member bank not in a reserve city, the minimum reserve ratio for any demand deposit shall be not less than 7 per centum and not more than 14 per centum.

(3) In the case of any deposit other than a demand deposit, the minimum reserve ratio shall be not less than 3 per centum and not more than 10 per centum.

The Board may, however, prescribe any reserve ratio, not more than 22 per centum, with respect to any indebtedness of a member bank that arises out of a transaction in the ordinary course of its banking business with respect to either funds received [from] or credit extended by such bank to a bank organized under the law of a foreign country or a dependency or insular possession of the United States. *In the case of any member bank or member of the Federal Home Loan Bank System, the Board may establish a reserve ratio for negotiable order of withdrawal accounts (as defined by section 19(i) of this Act), which may be set at a level different from that applicable to demand deposits.*

(i) No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand: *Provided*, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract entered into in good faith which is in force on the date on which the bank becomes subject to the provisions of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: *Provided further*, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located outside of the States of the United States and the District of Columbia: *Provided further*, That until the expiration of two years after the date of enactment of the Banking Act of 1935 this paragraph shall not apply (1) to any deposit made by a savings bank as defined in section 12B of this Act, as amended, or by a mutual savings bank, or (2) to any deposit of

public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, or to any deposit of trust funds if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law. So much of existing law as requires the payment of interest with respect to any funds deposited by the United States, by any Territory, District, or possession thereof (including the Philippine Islands), or by any public instrumentality, agency, or officer of the foregoing, as is inconsistent with the provisions of this section as amended, is hereby repealed: *Provided further*, That this paragraph shall not apply to negotiable order of withdrawal accounts. For purposes of this paragraph, the term "negotiable order of withdrawal account" means an account on which payment of interest may be made on a deposit with respect to which the member bank may require the depositor to give notice of an intended withdrawal not less than thirty days before the withdrawal is made, even though in practice such notice is not required and the depositor is allowed to make withdrawals by negotiable or transferable instrument for the purpose of making payments to third persons or otherwise.

\* \* \* \* \*

SECTION 18 OF THE FEDERAL DEPOSIT  
INSURANCE ACT

SEC. 18. \* \* \*

\* \* \* \* \*

(g) The Board of Directors shall by regulation prohibit the payment of interest or dividends on demand deposits in insured nonmember banks and for such purposes it may define the term "demand deposits"; but such exceptions from this prohibition shall be made as are now or may hereafter be prescribed with respect to deposits payable on demand in member banks by section 19 of the Federal Reserve Act, as amended, or by regulation of the Board of Governors of the Federal Reserve System. *The prohibition in the first sentence on the payment of interest or dividends shall not apply to negotiable order of withdrawal accounts in insured nonmember banks. For purposes of this subsection, the term "negotiable order of withdrawal account" means an account on which payment of interest may be made on a deposit with respect to which the depository institution may require the depositor to give notice of an intended withdrawal not less than thirty days before the withdrawal is made, even though in practice such notice is not required and the depositor is allowed to make withdrawals by negotiable or transferable instrument for the purpose of making payments to third persons or otherwise.* The Board of Directors may from time to time, after consulting with the Board of Governors of the Federal Reserve System and the Federal Home Loan Bank Board, prescribe rules governing the payment and advertisement of interest on deposits, including limitations on the rates of interest or dividends that may be paid by insured nonmember banks (including insured mutual savings banks) on time and savings deposits. The Board of Directors may prescribe different rate limitations for different classes of deposits, for deposits of different amounts or with different matu-

rities or subject to different conditions regarding withdrawal or repayment according to the nature or location of insured nonmember banks or their depositors, or according to such other reasonable bases as the Board of Directors may deem desirable in the public interest. The Board of Directors is authorized for the purposes of this subsection to define the terms "time deposits" and "savings deposits", to determine what shall be deemed a payment of interest, and to prescribe such regulations as it may deem necessary to effectuate the purposes of this subsection and to prevent evasions thereof. Such regulations shall prohibit any insured nonmember bank from paying any time deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the Board of Directors, and from waiving any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement. The provisions of this subsection and of regulations issued thereunder shall also apply, in the discretion of the Board of Directors, to obligations other than deposits that are undertaken by insured nonmember banks or their affiliates. As used in this subsection, the term "affiliate" has the same meaning as when used in section 2(b) of the Banking Act of 1933, as amended (12 U.S.C. 221a(b)), except that the term "member bank", as used in such section 2(b), shall be deemed to refer to an insured nonmember bank. For each violation of any provision of this subsection or any lawful provision of such regulations relating to the payment of interest or dividends on deposits or to withdrawal of deposits, the offending bank shall be subject to a penalty of not more than \$100, which the corporation may recover for its use. During the period commencing on October 15, 1962, and ending on October 15, 1968, the provisions of this subsection shall not apply to the rate of interest which may be paid by insured nonmember banks on time deposits of foreign governments, monetary and financial authorities of foreign governments when acting as such, or international financial institutions of which the United States is a member. The authority conferred by this subsection shall also apply to noninsured banks in any State if the total amount of time and savings deposits held in all such banks in the State, plus the total amount of deposits, shares, and withdrawable accounts held in all building and loan, savings and loan, and homestead associations (including cooperative banks) in the State which are not members of a Federal home loan bank, is more than 20 per centum of the total amount of such deposits, shares, and withdrawable accounts held in all banks, and building and loan, savings and loan, and homestead associations (including cooperative banks) in the State. Such authority shall only be exercised by the Board of Directors with respect to such noninsured banks prior to July 31, 1970, to limit the rates of interest or dividends which such banks may pay on time and savings deposits to maximum rates not lower than 5½ per centum per annum. Whenever it shall appear to the Board of Directors that any noninsured bank or any affiliate thereof is engaged or has engaged or is about to engage in any acts or practices which constitute or will constitute a violation of the provisions of this subsection or of any regulations thereunder, the Board of Directors may, in its discretion, bring an action in the United States district court for the judicial district in which the principal office of the noninsured bank or affiliate thereof is located to enjoin

such acts or practices, to enforce compliance with this subsection or any regulations thereunder, or for a combination of the foregoing, and such courts shall have jurisdiction of such actions, and, upon a proper showing, an injunction, restraining order, or other appropriate order may be granted without bond.

## SECTION 5 OF THE HOME OWNERS' LOAN ACT OF 1933

### FEDERAL SAVINGS AND LOAN ASSOCIATIONS

#### SEC. 5. (a) \* \* \*

(b) (1) An association may raise capital in the form of such savings deposits, shares, or other accounts, for fixed, minimum, or indefinite periods of time (all of which are referred to in this section as savings accounts and all of which shall have the same priority upon liquidation) as are authorized by its charter or by regulations of the Board, and may issue such passbooks, time certificates of deposit, or other evidence of savings accounts as are so authorized. Holders of savings accounts and obligors of an association shall, to such extent as may be provided by its charter or by regulations of the Board, be members of the association, and shall have such voting rights and such other rights as are thereby provided. Except as may be otherwise authorized by the association's charter or regulation of the Board in the case of savings accounts for fixed or minimum terms of not less than thirty days, the payment of any savings account shall be subject to the right of the association to require such advance notice, not less than thirty days, as shall be provided for by the charter of the association or the regulations of the Board. The payment of withdrawals from savings accounts in the event an association does not pay all withdrawals in full (subject to the right of the association to require notice) shall be subject to such rules and procedures as may be prescribed by the association's charter or by regulation of the Board, but any association which, except as authorized in writing by the Board, fails to make full payment of any withdrawal when due shall be deemed to be in an unsafe or unsound condition to transact business within the meaning of subsection (d) of this section. [Savings] *Except as provided by paragraph (3), savings accounts shall not be subject to check or to withdrawal or transfer on negotiable or transferable order or authorization to the association, but the Board may by regulation provide for withdrawal or transfer of savings accounts upon nontransferable order or authorization.*

(2) To such extent as the Board may authorize by regulation or advice in writing, an association may borrow, may give security, and may issue such notes, bonds, debentures, or other obligations, or other securities (except capital stock) as the Board may so authorize.

(3) *An association may offer negotiable order of withdrawal accounts. For purposes of this paragraph, the term "negotiable order of withdrawal account" means an account on which payment of interest may be made on a deposit with respect to which the depository institution may require the depositor to give notice of an intended withdrawal not less than thirty days before the withdrawal is made, even*



*though in practice such notice is not required and the depositor is allowed to make withdrawals by negotiable or transferable instrument for the purpose of making payments to third persons or otherwise.*

## SECTION 203 OF THE ACT OF OCTOBER 28, 1974

AN ACT To increase deposit insurance from \$20,000 to \$40,000, to provide full insurance for public unit deposits of \$100,000 per account, to establish a National Commission on Electronic Fund Transfers, and for other purposes

\* \* \* \* \*

### TITLE II—NATIONAL COMMISSION ON ELECTRONIC FUND TRANSFERS

\* \* \* \* \*

#### FUNCTIONS

##### SEC. 203. (a) \* \* \*

(b) The Commission shall make an interim report [within one year of its findings and recommendations] *within one year of the date of the confirmation by the Senate of the Chairperson or the appointment by the President of an acting Chairperson* and at such other times as it deems advisable and shall transmit to the President and to the Congress not later than two years after the date of [enactment of this Act] *the confirmation by the Senate of the Chairperson or the appointment by the President of an acting Chairperson* a final report of its findings and recommendations. Any such report shall include all hearing transcripts, staff studies, and other material used in preparation of the report. The interim and final reports shall be made available to the public upon transmittal. Sixty days after transmission of its final report the Commission shall cease to exist.

## MINORITY VIEWS ON H.R. 10024, THE MINORITY DIS- CLOSURE ACT OF 1975

Not even the Mortgage Disclosure Act of 1975 has escaped the effect of inflation—the bill is now H.R. 10024, rather than H.R. 8024. Fortunately, however, there have been some important subtractions along the way.

The 90-day moratorium on Electronic Funds Transfer System (EFTS) experiments, contained in Title II of H.R. 8024, a provision which might later have been extended and which would, in any case, have introduced a new element of costly delay and confusion into the efforts of financial institutions which are attempting to plan for the orderly introduction and development of EFT technology, has been removed from the bill.

Title III, the so-called "redlining" title, is no longer the threatening monster which confronted us in H.R. 8024. Although use of the broad term "mortgage loans," rather than the narrower term "home mortgage loans," makes the operative language somewhat unclear, we understand that the intent of the title is to only require disclosure of the number and total dollar amount of mortgage loans by census tract in standard metropolitan statistical areas (SMSA's) where census tract maps are readily available, and by ZIP code in SMSA's where census tract maps are difficult to obtain at reasonable cost. No longer will depository institutions be required to disclose the number and dollar amount of deposits, or of commercial loans, by census tract in each SMSA.

There was some confusion during the mark-ups over the volume of data that would be required under Title III. If each office of an institution were only required to produce the number and dollar amount of mortgage loans for the census tract in which it was located, persons seeking, for whatever it would be worth, the data for an entire SMSA would have to visit the home office and each branch to compile the data for an entire SMSA. On the other hand, a requirement that the complete data for the entire SMSA be available at each branch would require lengthy computer print-outs to be reproduced and distributed in areas, such as Los Angeles, where there are more than 3000 census tracts, and where some depository institutions have several dozen branches. Such a requirement would have entailed substantial copying and distribution costs and would have caused confusion among branch personnel who would be called upon to handle requests for the data. Mr. Rousselot's amendment is intended to solve this problem by providing that the complete data be made available at the home office and at least one branch office in each SMSA in which the institution operates.

Another difficulty which was implicit in Title III was that the requirement of disclosure of mortgage loans by census tract might have a "chilling effect" upon the ability of depository institutions to

exercise prudent professional judgment in the placement of loans. The ultimate basis upon which credit should be extended is the credit-worthiness of the borrower. It is noteworthy that even the most vociferous advocates of this legislation testified that the last thing they wanted was to force depository institutions to make unsound loans. Lest there be any misunderstanding that the purpose of the title was to enable the Federal government to substitute its judgment for the judgment of responsible officials of depository institutions, and thus to revive the recently defeated credit allocation proposals, the Committee adopted the Gradison amendment, which provides that, "Nothing in this title is intended to, nor shall it be construed to, encourage unsound lending practices or the allocation of credit."

As it now stands, Title III represents the resolution of a dilemma which faced proponents of mortgage disclosure legislation. Any truly worthwhile effort to provide citizens with sufficient data to enable them to determine whether or not an institution were "redlining," the hearings revealed, would have to provide not only data on loans and deposits on a census tract basis, but also authoritative data regarding the demand for loans in each census tract. Otherwise, there would be a substantial likelihood that depository institutions would be castigated for failing to make loans in a given area despite the fact that little or no demand for loans existed there. None of the witnesses who testified before the Subcommittee was able to suggest a practical way to obtain data on loan demand, so the effort to provide citizens with sufficient information to establish that depository institutions are failing to satisfy local demand had to be abandoned.

The present mortgage disclosure title would impose upon depository institutions annual costs ranging from several hundred to several thousand dollars for routine computer processing as well as one-time costs of as much as \$12,500 to develop the necessary "software" to permit classification of current file data according to ZIP codes and census tracts. The bill delegates to the Federal Reserve Board the power to determine who shall pay for the provision of copies of the data to the person who requests them. The costs involved in satisfying the requirements of Title III can no longer be fairly described as staggering, although it may be noted that the combined yearly compliance costs of several large institutions would amount to enough money to have provided for an additional mortgage for a moderately-priced home.

If, indeed, it can now be said that the costs involved in satisfying the disclosure requirements of Title III are relatively small, it must also be acknowledged that the benefits are also small. In fact, in the process of reducing costs to more acceptable levels, the Committee has left us with a title in search of a mission.

Section 302 states a Congressional finding that "the depository institutions have sometimes contributed to the decline of certain geographic areas by their failure pursuant to their chartering responsibilities to provide adequate home financing to qualified applicants on reasonable terms and conditions." (Emphasis is ours.) The charge that these institutions have failed to live up to their chartering responsibilities ignores the fact that Federal savings and loan associations were established under the Home Owners' Loan Act of 1933 for a dual purpose; namely, to provide institutions "in which people may

invest their funds and in order to provide for the financing of homes." Spokesmen for another form of thrift institution, the mutual savings banks, informed the Subcommittee that the charters of these institutions charge them with providing an outlet for the investment of the savings of depositors at the highest return consistent with safety. There typically is no mention that such institutions must serve as a source of funds for housing, or for some other social purpose.

Assuming, for the sake of argument, that depository institutions have an "obligation to serve housing credit needs," as Section 302 suggests, the title fails to provide, as argued above, sufficient data to prove the allegation. The second stated purpose, "to assist public officials in their determination of the distribution of public sector investments in a manner designed to improve the private investment environment 'was contrived after the underpinnings of the original "chartering obligations" rationale had been removed.'" There is little reason to believe that public officials are lacking for data to assist them in formulating their applications for federal assistance. We are left, therefore, with a title which provides for the collection of data in the hope that it will provide, at the expense of the accused institutions, evidence to substantiate the charges which have been leveled against them.

There are three major objections to indulging in what otherwise might be considered a fruitless, but relatively harmless, exercise.

1. Title III constitutes yet another example of the imposition of unnecessary and unproductive paperwork requirements, the most infamous recent example of which is the Real Estate Settlement Procedures Act (RESPA), which are "nickel-and-diming" to death the very institutions which should be leading the way toward economic recovery.

2. Concentration of attention on the fact that depository institutions have declined to provide mortgage money in certain neighborhoods of major cities distracts attention from the real causes of the decline of those neighborhoods, chief of which is the "disinvestment" by local governments in the vital services, such as sanitation, police protection, and fire prevention, which are necessary to maintain an attractive living environment.

3. The suggestion, which is implicit in Title III, that funds of depository institutions really should be invested only in those neighborhoods in which the funds were initially deposited, would, if taken seriously, undermine more than forty years of Federal effort to assist in the development of effective secondary mortgage markets for the express purpose of facilitating the transfer of money from areas where funds are plentiful to other areas where they are needed. Carried to its logical extreme, the notion that money, the most fungible of all commodities, should not be permitted to move freely in the marketplace could cripple the ability of our economy to provide savings and investment opportunities as well as its ability to provide housing.

A number of states have seen fit to require disclosure by depository institutions of data relating to the geographic distribution of mortgage loans. Their experience, coupled with the experience of regulatory agencies which are already engaged in the business of collecting similar data, should provide more than sufficient opportunity to



determine the extent to which the "redlining" thesis is valid, without resort to a national program such as Title III would establish.

We strongly urge that this wasteful and unnecessary title be stricken from H.R. 10024 when the bill is considered on the Floor.

ALBERT W. JOHNSON.  
J. WILLIAM STANTON.  
GARRY BROWN.  
CHALMERS P. WYLIE.  
JOHN H. ROUSSELOT.  
GEORGE HANSEN.  
RICHARD T. SCHULTE.  
CHARLES E. GRASSLEY.

ADDITIONAL VIEWS OF ALBERT JOHNSON  
ON H.R. 10024

I am opposed to Section 103 of this bill which authorizes nationwide extension of the so-called NOW accounts. For the sake of those who are not familiar with these accounts, let me explain that "NOW" stands for negotiable orders of withdrawal and these accounts draw interest just as a savings account does, but the depositor is permitted to write a limited number of negotiable orders on the account each month. These negotiable orders are, in effect, the same as a check so the effect of a NOW account is essentially the same as our impairing the long-standing prohibition against the payment of interest on demand deposits.

Our staff has done a study on the reasons for this long-standing prohibition against the payment of interest on demand deposits. It is evident from this that prior to 1933, there were abuses resulting from the fact that interest could be paid on demand deposits which contributed in a major way to the bank failures of that period. One has the right to ask whether, if interest on deposits were permitted again, there might not occur an unsafe concentration of investments. The problem in the period before 1933 was that banks were not diversified in their investments, and liquidity was impaired when they simultaneously attempted to call stock market loans. After our recent experience with so many banks getting into real estate investment trusts all at once, and then having them all go bad at once having no place in the private sector to turn for assistance bailing out, we have a right to expect that, quite possibly, payment of interest on demand deposits might cause a concentration of funds in a relatively few banks, and set the stage for another money panic.

Before the prohibition is lifted, careful study should be made to attempt to answer the question whether such concentration of investments is likely to occur and what other market influences there might be, including effects on the distribution of credit. I should point out that the Committee on Banking, Currency and Housing currently has underway a well-rounded FINE Study considering the desirability of a broad range of changes in the banking structure and the authorities of diverse financial institutions to engage in new activities. So long as these financial studies are in progress, the NOW account experiment should obviously be contained in Massachusetts and New Hampshire.

While nationwide NOW accounts may be viewed by some as benefiting the depositor, we have no clear data explaining just how it is helping them. In fact, loan costs in those states where NOW accounts are used may have been increased by the high costs of paying interest on NOW accounts. These are questions to which the FINE Study is addressing itself and I am opposed to the nationwide extension of these accounts prior to the completion of the study and better under-

standing of the effects which these accounts have had on the lending practices of the banks that use them. Fundamentally, it has been recognized that the prohibition of interest payments on demand deposits whether theoretically sound or not, has been in place for over forty years and the structure of banking has adjusted to that prohibition. It seems probable that the prohibition has attenuated certain of the competitive pressures on smaller banks and that repeal of the prohibition would, therefore, put these smaller banks at a relative disadvantage. It is likely that larger banks, possessed of wider markets for investments of funds, would outbid their smaller community bank competitors for deposits. Hasty measures which may result in further concentration in the banking industry should not be undertaken at this time.

ALBERT JOHNSON.

#### ADDITIONAL VIEWS OF REPRESENTATIVE MILLICENT FENWICK TO H.R. 10024

I support H.R. 10024 and voted to report it to the House. I believe, however, that an improvement should be made in Title III of the bill, the Mortgage Disclosure Act, which requires banks and savings and loan associations to disclose the number and dollar amount of mortgage loans by census tract or ZIP code.

The bill as it is presently drafted requires all banks and associations—regardless of size—to make these disclosures. I think that banks should provide this information when it does not result in inordinate costs which the consumer and saver must ultimately bear. From the evidence presented at the subcommittee hearings, I feel that smaller banks and associations would have to carry a much higher financial burden than larger banks which benefit from computer facilities. Mr. Tom Scott, Jr., President of Unifirst Federal Savings and Loan Association of Jackson, Mississippi, and representing the U.S. League of Savings Associations, noted at the subcommittee hearings that:

Few savings and loans at present have computerized systems for coding loans or savings accounts by census tracts. The Census Bureau's Address Coding Guides and the materials from a few private companies are available, but they are on computer tape and neighborhood associations and smaller S&Ls don't usually possess the necessary hardware \* \* \*. It is impossible to give a precise cost estimate for collecting this data and making it available for public inspection. But a quick sample of 70 of our member associations suggests that providing the loan information would add \$1 million a year to the costs of operation of all affected associations \* \* \*. *The burden, of course, is relatively greater for the small, neighborhood savings associations where such operations must be performed manually. (Emphasis added.)*

In addition, the Bureau of the Census has estimated that computerized financial institutions would have to spend as much as \$80 for every 1,000 records processed.

Consequently I feel the House should amend H.R. 10024 to exempt small banks and associations—those with assets less than \$25 million—from the requirements of Title III. The bill already acknowledges that there are significant differences between small banks and larger ones, for section 308 gives the smaller institutions 15 months to comply with the provisions while larger banks must comply within 90 days. I offered an amendment in committee which would have exempted the small banks and associations and, although it narrowly failed of passage, I feel the House should acknowledge in this legislation that there are cost differentials between S&Ls.

MILLICENT FENWICK,  
Member of Congress.

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ADDITIONAL VIEWS OF REPRESENTATIVE MILLIKEN  
RELATIVE TO H.R. 10024

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In addition, the Bureau of the Census has estimated that computerized financial institutions would have to spend as much as \$50 for every 1,000 records processed.

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Member of Congress  
MILLIKEN  
Member of Congress

...time, I intend to address myself to the various issues that will be a part of the FINE study and the ensuing legislation.

DISSENTING VIEWS OF THE HONORABLE RICHARD KELLY ON H.R. 10024

H.R. 10024 incorporates several proposals with long-range impact on the banking industry and on the people it serves. Those affected by this legislation are ill-served by such a piecemeal approach to reform of our financial institutions.

Title I, with the exception of the provision for the temporary continuation of Regulation Q, is premature. By mandating a statutory interest rate differential and allowing NOW accounts on a nationwide basis at this time, the Committee is one step ahead of itself and looking the wrong way.

The Banking Committee earlier announced its intentions and has begun its work on a comprehensive study of our financial institutions. The President has sent us his own proposals in the form of the Financial Institutions Act. Both the Administration and the Committee suggest that the interest rate differential and NOW accounts are important components of any review of the banking system and any legislative reform package, regardless of the author, is likely to deal with these issues.

Title I violates the spirit and the tone set by the ongoing work of the FINE study. It appears to ignore the work of the FINE study and discounts whatever findings will eventually be revealed.

It is fair neither to the consumers nor to the bankers for us to legislate in a vacuum. Changes must be considered against the complex background of our financial institutions and their role in the economy, an elaborate tapestry of which Regulation Q, the interest rate differential, and NOW accounts are only three threads.

Under their current status, the interest rate differential enjoyed by the S&Ls and the broader commercial purview of the banks are part of a structure that should not be tampered with on a haphazard basis. The principals should know what they will lose or gain. Congress should know the full impact of any changes on the industry and the public. It is the responsibility of the Committee to guarantee that such important reforms are considered as a package and that the other Members of this body are given the best available and most lucid picture of our financial institutions system before being asked to participate in its reconstruction.

In the meantime, I do not think it is wise for the Committee to indulge in the kind of half-hearted nibbling and partial attempts indicated by its action in reporting this bill to the House.

It should be made clear that my opposition to Title I is predicated not on support for or opposition to any of the specific changes suggested therein, but rather on a reluctance to present my colleagues in the House with substantive "reforms" drop by drop when the whole glass of water at once would be a lot more satisfying. At the proper



time, I intend to address myself to the various issues that will be a part of the FINE study and the ensuing legislation.

Title III of the bill, the "Home Mortgage Disclosure Act of 1975" purports to alleviate a problem peculiar to our major metropolitan areas, known as "redlining," in which the banks are alleged to write off whole sections of cities as high-risk areas and refuse to make loans within those areas.

Emotion has clouded the reason of those who would wish to do right by the poor. These "political heroes" are going to cause private enterprise to give its money away by compelling it to do business in an area that is both dangerous and unprofitable. When the smoke clears, the taxpayer—all of those who work for a living—will be forced to pay the bill. It makes no sense to expect that any kind of reasonably sound business operation will take actions that are less profitable and of greater risk to its survival. We know that the loss will be passed on one way or another to the investors the depositors and the consumer.

If it is the will of the Congress to channel money into the inner city for all of the commercial and residential revitalization for which people would normally borrow money, then Congress should face this issue squarely and present a workable program to the financial institutions in which they may participate, instead of building such assistance to the poor on a foundation of attack on the banking industry.

If we need more money for loans and investments in the inner city and rejuvenation of decaying neighborhoods in the urban areas, the real answer is for this government to stop draining the capital markets of this nation by its constant deficit spending and the heavy borrowing that accompanies it. The scarcity of capital and its high cost, I am convinced, are two major obstacles to steady economic development—in the inner city or anywhere else.

We should not lose ourselves into untried solutions. H.R. 10024 gives us a four-year dose of anti-redlining. Logic indicates that by the end of one year we will know whether or not we have chosen the right vehicle for correcting the situation outlined to the Committee. The Subcommittee, in its wisdom, gave us a bill that started out with a one-year provision. The time period for Title III grew hastily in the Committee mark-up as members rushed to finish it and avoid any possible confrontation with the "five-minute rule" of the House.

Once again, we are committing this nation to a course of action whose effectiveness is, at best, doubtful but whose longevity is certain.

RICHARD KELLY.





## HOME MORTGAGE DISCLOSURE ACT

DECEMBER 12, 1975.—Ordered to be printed

Mr. PROXMIRE, from the committee of conference, submitted the following

### CONFERENCE REPORT

[To accompany S. 1281]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the House to the bill (S. 1281) to improve public understanding of the role of depository institutions in home financing, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its disagreement to the amendment of the House to the text of the bill and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the House amendment insert the following:

#### TITLE I—REGULATION OF INTEREST RATES

*SEC. 101. Section 7 of the Act of September 21, 1966 (Public Law 89-597), is amended by striking out "December 31, 1975" and inserting in lieu thereof "March 1, 1977".*

*SEC. 102. (a) An interest rate differential for any category of deposits or accounts which is in effect on December 10, 1975, between (1) any bank (other than a savings bank) the deposits of which are insured by the Federal Deposit Insurance Corporation and (2) any savings and loan, building and loan, or homestead association (including cooperative banks) the deposits or accounts of which are insured by the Federal Savings and Loan Insurance Corporation or any mutual savings bank as defined in section 3(f) of the Federal Deposit Insurance Act (12 U.S.C. 1813(j)) may not be eliminated or reduced unless—*

*(A) written notification is given by the Board of Governors of the Federal Reserve System to the Congress; and*

*(B) the House of Representatives and the Senate approve, by concurrent resolution, the proposed elimination or reduction of the interest rate differential.*

(b) In the case of the elimination or reduction of any interest rate differential under subsection (a) with respect to any category of deposits or accounts between (1) any bank (other than a savings bank) the deposits of which are insured by the Federal Deposit Insurance Corporation and (2) any savings and loan, building and loan, or homestead association (including cooperative banks) the deposits or accounts of which are insured by the Federal Savings and Loan Insurance Corporation or any mutual savings bank as defined in section 3(f) of the Federal Deposit Insurance Act (12 U.S.C. 1813(f)), the maximum rate of interest which shall be established for such category of deposits for banks (other than savings banks) the deposits of which are insured by the Federal Deposit Insurance Corporation shall be equal to the highest rate of interest which savings and loan associations the deposits or accounts of which are insured by the Federal Savings and Loan Insurance Corporation were permitted to charge for such category of deposits immediately prior to the elimination or reduction of such interest rate differential.

## TITLE II—ELECTRONIC FUND TRANSFERS

SEC. 201. Section 203(b) of title II of the Act of October 28, 1974 (Public Law 93-495), is amended by—

(1) striking out “within one year of its findings and recommendations” and inserting in lieu thereof “within one year of the date of the confirmation by the Senate of the Chairperson or the appointment by the President of an acting Chairperson”; and

(2) striking out “not later than two years after the date of enactment of this Act” and inserting in lieu thereof “not later than two years after the date of the confirmation by the Senate of the Chairperson or the appointment by the President of an acting Chairperson”.

## TITLE III—HOME MORTGAGE DISCLOSURE

### SHORT TITLE

Sec. 301. This title may be cited as the “Home Mortgage Disclosure Act of 1975”.

### FINDINGS AND PURPOSES

Sec. 302. (a) The Congress finds that some depository institutions have sometimes contributed to the decline of certain geographic areas by their failure pursuant to their chartering responsibilities to provide adequate home financing to qualified applicants on reasonable terms and conditions.

(b) The purpose of this title is to provide the citizens and public officials of the United States with sufficient information to enable them to determine whether depository institutions are fulfilling their obligations to serve the housing needs of the communities and neighborhoods in which they are located and to assist public officials in their determination of the distribution of public sector investments in a manner designed to improve the private investment environment.

(c) Nothing in this title is intended to, nor shall it be construed to, encourage unsound lending practices or the allocation of credit.

## DEFINITIONS

Sec. 303. For purposes of this title—

(1) the term “mortgage loan” means a loan which is secured by residential real property or a home improvement loan;

(2) the term “depository institution” means any commercial bank, savings bank, savings and loan association, building and loan association, or homestead association (including cooperative banks), credit union which makes federally related mortgage loans as determined by the Board;

(3) the term “Board” means the Board of Governors of the Federal Reserve System; and

(4) the term “Secretary” means the Secretary of Housing and Urban Development.

## MAINTENANCE OF RECORDS AND PUBLIC DISCLOSURE

Sec. 304. (a) (1) Each depository institution which has a home office or branch office located within a standard metropolitan statistical area, as defined by the Office of Management and Budget shall compile and make available, in accordance with regulations of the Board, to the public for inspection and copying at the home office, and at least one branch office within each standard metropolitan statistical area in which the depository institution has an office the number and total dollar amount of mortgage loans which were (A) originated, or (B) purchased by that institution during each fiscal year (beginning with the last full fiscal year of that institution which immediately preceded the effective date of this title).

(2) The information required to be maintained and made available under paragraph (1) shall also be itemized in order to clearly and conspicuously disclose the following:

(A) The number and dollar amount for each item referred to in paragraph (1), by census tracts, where readily available at a reasonable cost, as determined by the Board, otherwise by ZIP code, for borrowers, under mortgage loans secured by property located within that standard metropolitan statistical area.

(B) The number and dollar amount for each item referred to in paragraph (1) for all such mortgage loans which are secured by property located outside that standard metropolitan statistical area.

For the purpose of this paragraph, a depository institution which maintains offices in more than one standard metropolitan statistical area shall be required to make the information required by this paragraph available at any such office only to the extent that such information relates to mortgage loans which were originated or purchased by an office of that depository institution located in the standard metropolitan statistical area in which the office making such information available is located.

(b) Any item of information relating to mortgage loans required to be maintained under subsection (a) shall be further itemized in order to disclose for each such item—

(1) the number and dollar amount of mortgage loans which are insured under title II of the National Housing Act or under

title V of the Housing Act of 1949 or which are guaranteed under chapter 37 of title 38, United States Code;

(2) the number and dollar amount of mortgage loans made to mortgagors who did not, at the time of execution of the mortgage, intend to reside in the property securing the mortgage loan; and

(3) the number and dollar amount of home improvement loans.

(c) Any information required to be compiled and made available under this section shall be maintained and made available for a period of five years after the close of the first year during which such information is required to be maintained and made available.

#### ENFORCEMENT

Sec. 305. (a) The Board shall prescribe such regulations as may be necessary to carry out the purposes of this title. These regulations may contain such classifications, differentiations, or other provisions, and may provide for such adjustments and exceptions for any class of transactions, as in the judgment of the Board are necessary and proper to effectuate the purposes of this title, and prevent circumvention or evasion thereof, or to facilitate compliance therewith.

(b) Compliance with the requirements imposed under this title shall be enforced under—

(1) section 8 of the Federal Deposit Insurance Act, in the case of—

(A) national banks, by the Comptroller of the Currency;  
(B) member banks of the Federal Reserve System, other than national banks, by the Board;

(C) banks insured by the Federal Deposit Insurance Corporation (other than members of the Federal Reserve System) and mutual savings banks as defined in section 3(f) of the Federal Deposit Insurance Act (12 U.S.C. 1813(f)) and any other depository institution not referred to in this paragraph or paragraph (2) or (3) of this subsection, by the Board of Directors of the Federal Deposit Insurance Corporation;

(2) section 5(d) of the Home Owners' Loan Act of 1933, section 407 of the National Housing Act, and sections 6(i) and 17 of the Federal Home Loan Bank Act, by the Federal Home Loan Bank Board (acting directly or through the Federal Savings and Loan Insurance Corporation), in the case of any institution subject to any of those provisions; and

(3) the Federal Credit Union Act, by the Administrator of the National Credit Union Administration with respect to any credit union.

(c) For the purpose of the exercise by any agency referred to in subsection (b) of its powers under any Act referred to in that subsection, a violation of any requirement imposed under this title shall be deemed to be a violation of a requirement imposed under that Act. In addition to its powers under any provision of law specifically referred to in subsection (b), each of the agencies referred to in that sub-

section may exercise, for the purpose of enforcing compliance with any requirement imposed under this title, any other authority conferred on it by law.

#### RELATION TO STATE LAWS

Sec. 306. (a) This title does not annul, alter, or affect, or exempt any State chartered depository institution subject to the provisions of this title from complying with the laws of any State or subdivision thereof with respect to public disclosure and recordkeeping by depositor institutions, except to the extent that those laws are inconsistent with any provision of this title, and then only to the extent of the inconsistency. The Board is authorized to determine whether such inconsistencies exist. The Board may not determine that any such law is inconsistent with any provision of this title if the Board determines that such law requires the maintenance of records with greater geographic or other detail than is required under this title, or that such law otherwise provides greater disclosure than is required under this title.

(b) The Board may by regulation exempt from the requirements of this title any State chartered depository institution within any State or subdivision thereof if it determines that, under the law of such State or subdivision, that institution is subject to requirements substantially similar to those imposed under this title, and that such law contains adequate provisions for enforcement. Notwithstanding any other provision of this subsection, compliance with the requirements imposed under this subsection shall be enforced under—

(1) Section 8 of the Federal Deposit Insurance Act in the case of national banks, by the Comptroller of the Currency; and

(2) Section 5(d) of the Home Owners' Loan Act of 1933 in the case of any institution subject to that provision, by the Federal Home Loan Bank Board,

#### RESEARCH AND IMPROVED METHODS

Sec. 307. (1) The Federal Home Loan Bank Board, with the assistance of the Secretary, the Director of the Bureau of the Census, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and such other persons as the Federal Home Loan Bank Board deems appropriate, shall develop, or assist in the improvement of, methods of matching addresses and census tracts to facilitate compliance by depository institutions in as economical a manner as possible with the requirements of this title.

(2) There is authorized to be appropriated such sums as may be necessary to carry out this subsection.

(3) The Federal Home Loan Bank Board is authorized to utilize, contract with, act through, or compensate any person or agency in order to carry out this subsection.

(b) The Federal Home Loan Bank Board shall recommend to the Committee on Banking, Currency and Housing of the House of Representatives and the Committee on Banking, Housing and Urban Affairs of the Senate such additional legislation as the Federal Home Loan Bank Board deems appropriate to carry out the purpose of this title.



## STUDY

SEC. 308. (a) *The Board, in consultation with the Secretary of Housing and Urban Development, is authorized and directed to carry out a study to determine the feasibility and usefulness of requiring depository institutions located outside standard metropolitan statistical areas, as defined by the Office of Management and Budget, to make disclosures comparable to those required by this title.*

(b) *A report on the study under this section shall be transmitted to the Congress not later than three years after the date of enactment of this title.*

## EFFECTIVE DATE

SEC. 309. *This title shall take effect on the one hundred and eightieth day beginning after the date of its enactment. Any depository institution which has total assets as of its last full fiscal year of \$10,000,000 or less exempt from the provisions of this title.*

## TERMINATION OF AUTHORITY

SEC. 310. *The authority granted by this title shall expire four years after its effective date.*

And the House agree to the same.

That the Senate recede from its disagreement to the amendment of the House to the title of the bill, and agree to the same.

WILLIAM PROXMIRE,  
JOHN SPARKMAN,  
HARRISON WILLIAMS,  
T. J. MCINTYRE,  
ALAN CRANSTON,  
EDWARD W. BROOKE,  
BOB PACKWOOD,

*Managers on the Part of the Senate.*

HENRY REUSS,  
FERNAND J. ST GERMAIN,  
FRANK ANNUNZIO,  
WM. BARRETT,  
JERRY M. PATTERSON,

*Managers on the Part of the House*

JOINT EXPLANATORY STATEMENT OF THE  
COMMITTEE OF CONFERENCE

The managers on the part of the House and the Senate at the conference on the disagreeing votes of the two Houses on the amendments of the House to the bill (S. 1281) to improve public understanding of the role of depository institutions in home financing, and for other purposes, submit the following joint statement to the House and the Senate in explanation of the effect of the action agreed upon by the managers and recommended in the accompanying conference report:

The House amendment to the text of the bill struck out all of the Senate bill after the enacting clause and inserted a substitute text.

The Senate recedes from its disagreement to the amendment of the House with an amendment which is a substitute for the Senate bill. The House amendment, the Senate bill and the substitute agreed to in conference are noted below except for clerical corrections, conforming changes made necessary by agreements reached by the conferees, and minor drafting and clarifying changes.

## TITLE I

The House amendment provided for an extension of Regulation Q until December 31, 1977. The term "Regulation Q" refers to the authority by which the various Federal financial regulatory agencies set interest rate ceilings on deposits in financial institutions under their respective jurisdictions. The Senate bill had no provision. The Senate receded to the House with an amendment providing for an extension of Regulation Q until March 1, 1977.

The House amendment provided that an interest rate differential of not less than one-quarter of one percent be maintained in favor of deposits in thrift institutions. The amendment further provided that the Federal financial regulatory agencies take no action to eliminate or lessen any such differential in existence on the date of enactment except that such differential may, upon a finding of competitive disadvantage, be lessened or eliminated for selected geographic areas and by category of accounts.

The Senate bill had no provision. The House receded to the Senate.

The House amendment provided that there could be no lessening or eliminating of the differential by the regulatory agencies upon a finding of competitive disadvantage unless 45-day prior notification be given by the Board of Governors of the Federal Reserve System to the respective Banking Committees of both the House and the Senate and that neither Committee, within such 45-day period, disapprove by resolution the proposed elimination or lessening of the differential.

The Senate bill contained no provision. The Senate receded to the House with an amendment that any lessening or elimination of the differential proposed by the Federal financial regulatory agencies

could take effect only upon the adoption of a concurrent resolution by both the Senate and the House of Representatives approving such proposal. The Conferees intend that this provision shall in no way restrict the present authority of the Federal financial regulatory agencies to increase deposit rate ceilings under Regulation Q as appropriate.

The House amendment provided that in any case where the differential is lessened or eliminated with regard to any category of account, the rate payable by all depository institutions on such category of account shall be the highest rate permitted under Regulation Q for that category of account.

The House amendment provided that for the period during which Regulation Q is extended under this Act, the Federal financial regulatory agencies shall study the impact of expanded lending and investment powers authorized for State-chartered thrift institutions on the housing portfolios of such institutions with special emphasis upon possible disintermediation effects.

The Senate bill had no provision. The House receded to the Senate.

#### TITLE II

The House amendment provided that the interim and final reports of the National Commission on Electronic Fund Transfers be submitted within one and two years, respectively, from the date of the confirmation by the Senate of the Chairperson. The Senate had no provision. The Senate receded to the House.

The House amendment further required an additional report to be submitted to the respective House and Senate Banking Committees within six months after enactment. The Senate bill had no provision. The House receded to the Senate.

#### TITLE III.—FINDINGS AND PURPOSE

The House amendment contains a finding that depository institutions have sometimes contributed to the decline of certain geographic areas by failing to provide home mortgage financing on reasonable terms to qualified applicants. The Senate provision is somewhat narrower and implies a connection between neighborhoods from which deposits are received and neighborhoods to which loans are made. The conference report contains the House provision.

The House amendment provides that the purpose is to enable citizens to determine whether depository institutions are fulfilling their obligations to serve housing credit needs of the affected areas and to help public officials determine public sector investments. The Senate provision contains broader language indicating an obligation by lenders to serve the housing needs of their communities. The conference report adopts the Senate provision, and also incorporates the House language indicating an additional purpose to assist public officials in their determination of public sector investments.

The House amendment contains a provision not included by the Senate that nothing in this title shall be construed to encourage unsound lending practices or the allocation of credit. The legislative history indicates a similar intent on the part of the Senate. The conference report adopts the House provision.

#### DEFINITIONS

The House amendment defines a mortgage loan as a loan secured by residential real property, or a home improvement loan. The Senate definition includes only "Federally related" mortgage loans other than temporary financing as defined under Section 3 of the Real Estate Settlement Procedures Act of 1974. The conference report adopts the broader house provision, which will provide information on multiple as well as single family mortgage loans, and also home improvement loans.

The House and Senate both included within the definition of a depository institution a bank, a savings bank, or a savings and loan association. The Senate bill included credit unions; the House amendment added homestead associations (including cooperative banks). The House receded to the Senate provision with an amendment to include homestead associations (including cooperative banks).

The conference report includes the House provision defining "Board" as the Board of Governors of the Federal Reserve, and "Secretary" as the Secretary of Housing and Urban Development. There was no comparable Senate provision.

#### MAINTENANCE OF PUBLIC RECORDS AND PUBLIC DISCLOSURE

The Senate bill required information to be available for inspection at every branch of an institution located within a standard metropolitan Federally related mortgage loans. In addition to mutual savings banks, this includes non-Federally insured savings and loan associations. The conference report includes the Senate provision extending coverage to all non-Federally insured institutions, but adopts the House provision specifying that in the case of such institutions compliance shall be enforced by the FDIC.

The Conference Report includes a provision in the Senate bill but not in the House amendment providing that the National Credit Union Administration shall enforce compliance in the case of credit unions.

#### RELATION TO STATE LAWS

The Senate bill provided that this legislation does not exempt any "person" otherwise subject to state or local laws regarding record-keeping and disclosure by depository institutions except to the extent of inconsistency with the provisions of this Act, and then only to the extent of the inconsistency, with the provision that the Board shall determine whether such inconsistencies exist. The Senate's intent was to subject all depository institutions in a jurisdiction to the same mortgage disclosure law, whether State or Federal, depending on which offered a greater degree of disclosure of mortgage information.

The House amendment provided an identical process for determining the inconsistency between state and Federal law, but limited the optional exemption from this Act to state chartered institutions. Under the House language, a state-chartered institution could be granted an exemption from this Act if the Board determined that the law of the state or subdivision afforded equal or greater disclosure, but in no case could a Federally chartered institution be granted an



exemption from this Act. The intent of the House provision is that in the area of public disclosure of mortgage lending statistics, this Act shall apply to all depository institutions unless an exemption is granted by the Board, in which case state-chartered institutions would be subject to the state or local law to the extent of the exemption, but Federally chartered institutions would continue to follow the requirements of this Act. The conferees understand that for the purposes of exemption authority granted to the Board, the term state law shall include state regulations which carry the force of law.

The Senate conferees regard the House provision concerning Federal pre-emption as an exception to the pre-emption provisions of other consumer finance laws, including the Truth in Lending and the Fair Credit Billing Acts, which contain provisions similar to the Senate provisions of S. 1281.

In the case of mortgage disclosure, however, the conferees on the part of the House strongly believe that subjecting a Federally chartered institution to state law would threaten the dual banking system.

With the understanding that this provision goes only to the narrow area of geographical disclosure of mortgage lending statistics, the Senate conferees agreed to the House provision, which is included in the conference report.

#### STUDIES

Both versions provided for a number of studies. The Conference Report included the Senate provision for a study to be carried out by the Federal Reserve Board to determine the feasibility and usefulness of requiring depository institutions located outside metropolitan areas to be subject to the requirements of this Act.

The Conference report also includes provisions contained in the House amendment requiring the concerned Federal regulatory agencies to work with the Census Bureau to develop methods of matching addresses with census tracts to facilitate compliance with this Act, and requiring the Federal Home Loan Bank to recommend to the Banking committees of the Congress such additional legislation deemed appropriate.

The Senate provision requiring such studies to be transmitted to the Congress within three years of enactment was included in the conference report.

#### EXEMPTION

The House amendment contained exemptions not included in the Senate bill, exempting institutions with total assets of \$25,000,000 or less from compliance for 15 months, and exempting institutions with assets of \$10,000,000 or less for the life of the Act. The conference report includes the exemption for institutions with assets of \$10,000,000 or less.

#### EFFECTIVE DATE

The Senate bill provided an effective date 90 days after enactment. The House amendment provided for 180 days. The Conference report provides that the Act shall take effect 180 days after enactment.



# Ninety-fourth Congress of the United States of America

AT THE FIRST SESSION

*Begun and held at the City of Washington on Tuesday, the fourteenth day of January,  
one thousand nine hundred and seventy-five*

## An Act

To extend the authority for the flexible regulation of interest rates on deposits and share accounts in depository institutions, to extend the National Commission on Electronic Fund Transfers, and to provide for home mortgage disclosure.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

### TITLE I—REGULATION OF INTEREST RATES

SEC. 101. Section 7 of the Act of September 21, 1966 (Public Law 89-597), is amended by striking out "December 31, 1975" and inserting in lieu thereof "March 1, 1977".

SEC. 102. (a) An interest rate differential for any category of deposits or accounts which is in effect on December 10, 1975, between (1) any bank (other than a savings bank) the deposits of which are insured by the Federal Deposit Insurance Corporation and (2) any savings and loan, building and loan, or homestead association (including cooperative banks) the deposits or accounts of which are insured by the Federal Savings and Loan Insurance Corporation or any mutual savings bank as defined in section 3(f) of the Federal Deposit Insurance Act (12 U.S.C. 1813(j)) may not be eliminated or reduced unless—

(A) written notification is given by the Board of Governors of the Federal Reserve System to the Congress; and

(B) the House of Representatives and the Senate approve, by concurrent resolution, the proposed elimination or reduction of the interest rate differential.

(b) In the case of the elimination or reduction of any interest rate differential under subsection (a) with respect to any category of deposits or accounts between (1) any bank (other than a savings bank) the deposits of which are insured by the Federal Deposit Insurance Corporation and (2) any savings and loan, building and loan, or homestead association (including cooperative banks) the deposits or accounts of which are insured by the Federal Savings and Loan Insurance Corporation or any mutual savings bank as defined in section 3(f) of the Federal Deposit Insurance Act (12 U.S.C. 1813(f)), the maximum rate of interest which shall be established for such category of deposits for banks (other than savings banks) the deposits of which are insured by the Federal Deposit Insurance Corporation shall be equal to the highest rate of interest which savings and loan associations the deposits or accounts of which are insured by the Federal Savings and Loan Insurance Corporation were permitted to charge for such category of deposits immediately prior to the elimination or reduction of such interest rate differential.

### TITLE II—ELECTRONIC FUND TRANSFERS

SEC. 201. Section 203(b) of title II of the Act of October 28, 1974 (Public Law 93-495), is amended by—

(1) striking out "within one year of its findings and recommendations" and inserting in lieu thereof "within one year of the date

of the confirmation by the Senate of the Chairperson or the appointment by the President of an acting Chairperson"; and (2) striking out "not later than two years after the date of enactment of this Act" and inserting in lieu thereof "not later than two years after the date of the confirmation by the Senate of the Chairperson or the appointment by the President of an acting Chairperson".

### TITLE III—HOME MORTGAGE DISCLOSURE

#### SHORT TITLE

SEC. 301. This title may be cited as the "Home Mortgage Disclosure Act of 1975".

#### FINDINGS AND PURPOSES

SEC. 302. (a) The Congress finds that some depository institutions have sometimes contributed to the decline of certain geographic areas by their failure pursuant to their chartering responsibilities to provide adequate home financing to qualified applicants on reasonable terms and conditions.

(b) The purpose of this title is to provide the citizens and public officials of the United States with sufficient information to enable them to determine whether depository institutions are filling their obligations to serve the housing needs of the communities and neighborhoods in which they are located and to assist public officials in their determination of the distribution of public sector investments in a manner designed to improve the private investment environment.

(c) Nothing in this title is intended to, nor shall it be construed to, encourage unsound lending practices or the allocation of credit.

#### DEFINITIONS

SEC. 303. For purposes of this title—

(1) the term "mortgage loan" means a loan which is secured by residential real property or a home improvement loan;

(2) the term "depository institution" means any commercial bank, savings bank, savings and loan association, building and loan association, or homestead association (including cooperative banks) or credit union which makes federally related mortgage loans as determined by the Board;

(3) the term "Board" means the Board of Governors of the Federal Reserve System; and

(4) the term "Secretary" means the Secretary of Housing and Urban Development.

#### MAINTENANCE OF RECORDS AND PUBLIC DISCLOSURE

SEC. 304. (a) (1) Each depository institution which has a home office or branch office located within a standard metropolitan statistical area, as defined by the Office of Management and Budget shall compile and make available, in accordance with regulations of the Board, to the public for inspection and copying at the home office, and at at least one branch office within each standard metropolitan statistical area in which the depository institution has an office the number and total dollar amount of mortgage loans which were (A) originated, or (B) purchased by that institution during each fiscal year (beginning with the last full fiscal year of that institution which immediately preceded the effective date of this title).



(2) The information required to be maintained and made available under paragraph (1) shall also be itemized in order to clearly and conspicuously disclose the following:

(A) The number and dollar amount for each item referred to in paragraph (1), by census tracts, where readily available at a reasonable cost, as determined by the Board, otherwise by ZIP code, for borrowers, under mortgage loans secured by property located within that standard metropolitan statistical area.

(B) The number and dollar amount for each item referred to in paragraph (1) for all such mortgage loans which are secured by property located outside that standard metropolitan statistical area.

For the purpose of this paragraph, a depository institution which maintains offices in more than one standard metropolitan statistical area shall be required to make the information required by this paragraph available at any such office only to the extent that such information relates to mortgage loans which were originated or purchased by an office of that depository institution located in the standard metropolitan statistical area in which the office making such information available is located.

(b) Any item of information relating to mortgage loans required to be maintained under subsection (a) shall be further itemized in order to disclose for each such item—

(1) the number and dollar amount of mortgage loans which are insured under title II of the National Housing Act or under title V of the Housing Act of 1949 or which are guaranteed under chapter 37 of title 38, United States Code;

(2) the number and dollar amount of mortgage loans made to mortgagors who did not, at the time of execution of the mortgage, intend to reside in the property securing the mortgage loan; and

(3) the number and dollar amount of home improvement loans.

(c) Any information required to be compiled and made available under this section shall be maintained and made available for a period of five years after the close of the first year during which such information is required to be maintained and made available.

#### ENFORCEMENT

SEC. 305. (a) The Board shall prescribe such regulations as may be necessary to carry out the purposes of this title. These regulations may contain such classifications, differentiations, or other provisions, and may provide for such adjustments and exceptions for any class of transactions, as in the judgment of the Board are necessary and proper to effectuate the purposes of this title, and prevent circumvention or evasion thereof, or to facilitate compliance therewith.

(b) Compliance with the requirements imposed under this title shall be enforced under—

(1) section 8 of the Federal Deposit Insurance Act, in the case of—

(A) national banks, by the Comptroller of the Currency;

(B) member banks of the Federal Reserve System, other than national banks, by the Board;

(C) banks insured by the Federal Deposit Insurance Corporation (other than members of the Federal Reserve System) and mutual savings banks as defined in section 3(f) of the Federal Deposit Insurance Act (12 U.S.C. 1813(f)) and

any other depository institution not referred to in this paragraph or paragraph (2) or (3) of this subsection, by the Board of Directors of the Federal Deposit Insurance Corporation;

(2) section 5(d) of the Home Owners' Loan Act of 1933, section 407 of the National Housing Act, and sections 6(i) and 17 of the Federal Home Loan Bank Act, by the Federal Home Loan Bank Board (acting directly or through the Federal Savings and Loan Insurance Corporation), in the case of any institution subject to any of those provisions; and

(3) the Federal Credit Union Act, by the Administrator of the National Credit Union Administration with respect to any credit union.

(c) For the purpose of the exercise by any agency referred to in subsection (b) of its powers under any Act referred to in that subsection, a violation of any requirement imposed under this title shall be deemed to be a violation of a requirement imposed under that Act. In addition to its powers under any provision of law specifically referred to in subsection (b), each of the agencies referred to in that subsection may exercise, for the purpose of enforcing compliance with any requirement imposed under this title, any other authority conferred on it by law.

#### RELATION TO STATE LAWS

SEC. 306. (a) This title does not annul, alter, or affect, or exempt any State chartered depository institution subject to the provisions of this title from complying with the laws of any State or subdivision thereof with respect to public disclosure and recordkeeping by depository institutions, except to the extent that those laws are inconsistent with any provision of this title, and then only to the extent of the inconsistency. The Board is authorized to determine whether such inconsistencies exist. The Board may not determine that any such law is inconsistent with any provision of this title if the Board determines that such law requires the maintenance of records with greater geographic or other detail than is required under this title, or that such law otherwise provides greater disclosure than is required under this title.

(b) The Board may by regulation exempt from the requirements of this title any State chartered depository institution within any State or subdivision thereof if it determines that, under the law of such State or subdivision, that institution is subject to requirements substantially similar to those imposed under this title, and that such law contains adequate provisions for enforcement. Notwithstanding any other provision of this subsection, compliance with the requirements imposed under this subsection shall be enforced under—

(1) Section 8 of the Federal Deposit Insurance Act in the case of national banks, by the Comptroller of the Currency; and

(2) Section 5(d) of the Home Owners' Loan Act of 1933 in the case of any institution subject to that provision, by the Federal Home Loan Bank Board.

#### RESEARCH AND IMPROVED METHODS

SEC. 307. (a) (1) The Federal Home Loan Bank Board, with the assistance of the Secretary, the Director of the Bureau of the Census, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and



such other persons as the Federal Home Loan Bank Board deems appropriate, shall develop, or assist in the improvement of, methods of matching addresses and census tracts to facilitate compliance by depository institutions in as economical a manner as possible with the requirements of this title.

(2) There is authorized to be appropriated such sums as may be necessary to carry out this subsection.

(3) The Federal Home Loan Bank Board is authorized to utilize, contract with, act through, or compensate any person or agency in order to carry out this subsection.

(b) The Federal Home Loan Bank Board shall recommend to the Committee on Banking, Currency and Housing of the House of Representatives and the Committee on Banking, Housing and Urban Affairs of the Senate such additional legislation as the Federal Home Loan Bank Board deems appropriate to carry out the purpose of this title.

STUDY

SEC. 308. (a) The Board, in consultation with the Secretary of Housing and Urban Development, is authorized and directed to carry out a study to determine the feasibility and usefulness of requiring depository institutions located outside standard metropolitan statistical areas, as defined by the Office of Management and Budget, to make disclosures comparable to those required by this title.

(b) A report on the study under this section shall be transmitted to the Congress not later than three years after the date of enactment of this title.

EFFECTIVE DATE

SEC. 309. This title shall take effect on the one hundred and eightieth day beginning after the date of its enactment. Any depository institution which has total assets as of its last full fiscal year of \$10,000,000 or less is exempt from the provisions of this title.

TERMINATION OF AUTHORITY

SEC. 310. The authority granted by this title shall expire four years after its effective date.

*Speaker of the House of Representatives.*

*Vice President of the United States and  
President of the Senate.*

December 19, 1975

Dear Mr. Director:

The following bills were received at the White House on December 19th:

✓ S. 313 ✓  
✓ S. 1281 ✓  
S. 2350

Please let the President have reports and recommendations as to the approval of these bills as soon as possible.

Sincerely,

Robert D. Linder  
Chief Executive Clerk

The Honorable James T. Lynn  
Director  
Office of Management and Budget  
Washington, D. C.