GENERAL
FG 267

oq/

March 2, 1973

Dear Mr. Lott:

The President has asked me to respond to your letter of February 15, 1973, regarding the Hunt Commission proposals. These proposals are undergoing extensive review within the Administration to determine which, if any, should be turned into legislation. I have forwarded your letter to others who are also involved in this effort for their background and information.

With respect to the subject of branch banking, the Commission recommended that any action to change branch banking laws be left to the states. The approach of leaving such a decision to the states is consistent with the President's concept of Federalism.

I appreciate your taking the time to send us your views. While the Hunt Commission proposals are the starting point of our review, we will reach our own decisions with respect to legislation. Views such as yours contribute importantly to the decisions reached.

Sincerely,

/s/

Richard D. Erb
Staff Assistant
to the President

Mr. R. W. Lott
President
Farmers State Bank
Elmwood, Illinois

2/21/73

COUNCIL ON INTERNATIONAL ECONOMIC POLICY

TO: Dick ERB

FROM: Executive Secretary

FYI ☒

For appropriate handling ☒

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FARMERS STATE BANK

ELMWOOD, ILLINOIS

THE WHITE HOUSE
WASHINGTON
FEB 21 AM 8 14
EXECUTIVE SECRETARIAT

R. W. LOTT
PRESIDENT

February 15, 1973

The President
The White House
Washington, D.C. 20500

PF

Mr. President:

What America needs is a good dose of horse sense and not so many ordinary men practising oneupmanship.

If you cut away all the fat in the recommendations of the President's Commission on Financial Structure and Regulation, you arrive at the two main thrusts - one, more bigness(branch banking and multi-bank holding companies) and two, a likeness of all financial institutions(giving the same power to savings and loans, banks, credit unions, etc.).

As you said in your message to Congress, you rejected the premise that "ever bigger government is the answer to every problem" at home. Concentration of banking power is not the answer to our financial problems. As a farmer knows, a bull can service a limited number of cows. An excerpt from an article about Britain's Big Four in Bankers Monthly(January, 1973) - "As long as there was no competition to speak of in commercial banking why shouldn't customers be considered a minor problem. They had nowhere else to go."

A similarity of all financial institutions is not desirable because each was created for different functions. In building a house many compromises are made. Not any of the rooms in a one floor multi-roomed house can have all four sides exposed to the summer breezes - nor can a bathroom serve very well as a living room. Banks with their demand deposits need liquidity and savings and loans with their long term real estate loans need the stability of long term savings.

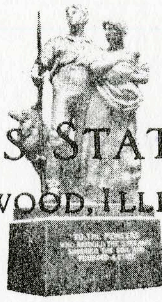
In short, we need the independent community banks with their many presidents and many bank boards to solve our problems at the local level, and we need the specialized financial institutions to carry out their particular functions.

As Lane Kirkland, a dissident member of the commission, stated, "I am persuaded that the basic thrust of these recommendations is designed to promote the interests of private financial institutions without any genuine regard for the most urgent problems and needs of the nation" - so goes the feeling of the majority of bankers in Illinois that Hunt Commission Report is biased serving only the interest of big business.

Sincerely yours,

RW Lott

R. W. Lott
President



FARMERS STATE BANK
ELMWOOD, ILLINOIS

R. W. LOTT
PRESIDENT

FOR UNIT BANKING
(The Best Way in the U.S.A.)

A. Most competitive
1. People are mobile today. If the unit banker doesn't take care of the credit needs in his community or area, the banker will find his business going down the street or road to the next door or town banker.
2. Many bank boards and many top executives are setting many different policies and are administering the policies in many different ways.

B. Most community-minded
1. Unit bankers are seeking to do the job in their own communities and are not looking for more power to dominate other communities.
2. Local businessmen sitting on the hometown unit bank board are more knowledgeable of the community needs and more dedicated to meeting those needs than the big boys would be sitting on the multi-bank holding company board.
3. In unit banking, top executive officers are more permanent in the community than a branch manager who would always be looking forward to promotion to the head office.

C. Most consumer-minded
1. Interest rates are lower in the Middle West where we have more unit banking.(West Coast and East Coast have charged higher rates where branch banking is prevalent.)
2. For the smaller unit bank, the small loans to the local businessman and farmer are his meat and potatoes.
3. Where the loan to the local businessman is too large for the unit banker, he works diligently to place the loan with the bank's correspondent.

Mead?

Sq

3 1 MAY 1973 (1)

D. Mead

GENERAL

FG 267

LAW OFFICES
SHIPLEY AKERMAN STEIN & KAPS
NATIONAL PRESS BUILDING
WASHINGTON, D. C. 20004
(202) 783-1647

May 30, 1973

Honorable Kenneth R. Cole, Jr.
Executive Director
Domestic Council
1600 Pennsylvania Avenue
Washington, D. C. 20500

Dear Mr. Cole:

I read recently in "Business Week" that the report of President Nixon's Commission on Financial Structure & Regulation, headed by Reed Hunt, is under discussion in terms of possible legislation or other action.

Can you advise whether legislation will be proposed in this session of Congress, or, if not, whether any other action is contemplated with respect to the report.

Sincerely yours,

Carl L. Shipley

Carl L. Shipley

CLS:sb

THE WHITE HOUSE
WASHINGTON

Bobbie:

Call Shapley and tell him:

(1) Still under discussion and study.

(2) No decision yet on whether or not legislation is contemplated.

DGM

Dana Mead
Dick Fairbanks
~~Dick~~

GENERAL
FG267
FI2

(Bo)

W/H
Ltrs.

December 21, 1973

Dear Mr. Shinholser:

The President has asked me to respond to your thogghtful letter regarding the Hunt Commission legislation. From thetime the report was submitted, I have been involved in the Administration effort to evaluate the Hunt Commission proposals and to develop the legislation based on those proposals. My responsibility was to make sure that all views were brought to bear on the final legislative decisions.

The concerns you raised about housing and the need to serve the consumer were our concerns also. While the legislation gives savings and loan associations more flexibility and powers to serve the consumer, we do not believe that these expanded powers will lead S&Ls to become commercial banks. As a consequence of the proposals, consumers would be able to earn a higher rate of return on their savings and would receive a wider range of services. With respect to housing, by providing checking account and consumer credit powers to savings and loan associations, commercial banks will be under greater pressure to make mortgage loans.

It would be difficult in this letter to do justice for all of the reasons underlying our legislation based on the Hunt Commission proposals. In the enclosed Treasury Department statement, we have tried to present the reasoning behind our decisions. I hope this will give you some understanding of the many factors which were weighted before we made our decisions.

If you have any questions, do not hesitate to write. We do appreciate your interest in this important subject.

Best wishes for the New Year,

Sincerely,

/S/

Richard D. Erb
Assistant Director
Council on International Economic Policy

Mr. A. Edwin Shinholser
Shinholser and Logan
FirstFFederal Building
Sanford, Florida 32771

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SHINHOLSER AND LOGAN
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P. O. BOX 2279
TELEPHONE 323-3660
AREA CODE 305

November 26, 1973

The President of the
United States of America
The White House
Washington, D. C. 20000

PF

My Dear Mr. President:

Please let me commend your efforts toward serving the best interests of the people of the United States. If you had done no more than make the appointments you did to the United States Supreme Court, it would constitute more effort than any other President has made in forty years to return this country to Constitutional Government.

This letter is to ask you and your administration to reconsider the conclusions which have apparently been reached regarding the report of the Commission known as "The Hunt Commission." The particular recommendation to be considered is that which would eventually phase out savings and loan associations and merge them into the commercial banking system.

The background for my observations in this regard is that I have served for twenty four years as Attorney for, and a member of the Board of Directors of, First Federal Savings and Loan Association of Seminole County, Sanford, Florida. During this period of time, the total assets of the Association have grown from slightly more than $1,000,000.00 to more than $70,000,000.00. While this by no means qualifies as a large Association on the national scale, the lessons learned during that period of growth would have to be practically identical with those learned in any other such Association.

Perhaps the first and most basic fact to be learned is the two-fold purpose of the savings and loan business. The identification of the business gives the reason for its existence: first, a sound financial institution in which every citizen can be encouraged to invest his savings so that he may build substantial financial reserves and at the same time realize regular earnings on his investment; second, an assured source of loan funds available to home owners on a long term basis at reasonable cost and rates.

Only by actual involvement with the savings and loan industry is one able to fully appreciate the degree to which it is a specialized business. The same involvement, or certainly extremely careful study, is required to show that this specialized industry is essential to modern America, and that there is no other industry, including the commercial banking industry, which is equipped to take its place. "Housing" for America has been a prime consideration of the national administration during the past forty years. If the premise for adopting the report of the Hunt Commission is that it is in the best interest of housing for the people of this country, I must respectfully and emphatically disagree. No other type of institution has the interest in, and the mechanics for, providing long term home financing as does the savings and loan industry. It is a combination of this feature with the industry's appeal to the saver as an encouragement for his thrift, which has brought the industry to its present 260 billion dollar stature.

The concept that commercial banks might absorb the functions of Savings and Loan institutions overlooks the basic distinctions which require that they continue as separate entities. Banks by their very nature have a large supply of floating funds and are geared for short-term financing in keeping with the rapid fluctuation of interest rates which accompany that type of financing. As checking account institutions, banks must maintain a high degree of liquidity. That requirement alone militates against long term commitments with fixed interest rates. At the same time, a rapid turnover of funds enables banks to demand higher interest rates when the market so requires. As a result. the return on a bank's entire portfolio of loans should be susceptable to revision within a period of three to five years. The wide use of the demand note by banks is evidence of their intent to stay constantly abreast of the requirements of a fluctuating money market.

By contrast, the commitment of a savings and loan association is normally from fifteen to twenty-five years, and in the majority of cases is probably closer to the latter duration than the former. For the most part, these loans are made at fixed rates and are based on the conditions pertaining in the money market at the time they are made. Until the past five years these conditions have been remarkably stable. Interest rates on long term mortgages fluctuated primarily between 5 3/4% and 7%. This has not meant that Savings and Loans institutions have not experienced their periods of tight money in which conditions in the money market dictated that for brief periods of time the loan flow must be cut back to just a trickle. On the other hand, the industry has weathered the wide fluctuations otherwise evident in the money market, has built a sound foundation for its peculiar style of operation, and has demonstrated itself for what it is, a "Savings and Loan" Business.

In the interest of consumers, much has been said in recent years regarding conflict of interest. Admittedly, in the general sense, this has referred to the situation of management which owes allegience to two masters with divergent interests. By analogy, a bank executive faced with two possible loans, one the standard short-term commercial loan, the other the long term fixed-rate real estate loan, would have some serious soul-searching as to which loan to grant. The vast majority of commercial banks are stockholder owned institutions. As such, their prime objective is to produce income for the stockholders.

Admittedly, in the process they render to the communities in which they function all the services characteristic of commercial banks. With such an institution, profit must be considered primary and service incidental.

In the savings and loan industry the majority of federally chartered institutions are mutual associations. The benefit to each depositor in such an association is the same as it is to any other depositor. Because there is no fixed amount of stock in such an association, the amount of deposit is unlimited as to any investor or any number of investors. The return on investment may be varied, depending on the nature of the investment, whether in passbook account or certificate account, and, if the latter, the duration of the same. To the average investor in a savings and loan association, his basic consideration is long term savings at highest yield with safety of principal. The institution receiving such savings accounts accepts them in the category of long term savings. It has industry knowledge that under normal conditions the withdrawal from savings in any given year will be only a small fraction of the total savings deposits held.

In keeping with the concept of long-term loan commitments is the right of savings and loan institutions to maintain substantial bad-debt reserves. Apparently, the basis presently used was determined from the actual ratio of loss experienced by home loan institutions during the depression years of the 30's. The hope that there will be no recurrence of such a depression is an ideal. The possibility that there could be another such depression is a fact. In justice to those who invest their savings in long term commitments, there is very real reason for authorizing substantial bad-debt reserves. The elimination or reduction of this higher ratio would remove a safety factor which is essential to those dealing in the long-term home and housing mortgages.

On the loan side, the savings and loan is geared entirely to the long-term real estate loan. Its appraisal techniques, its loan application and loan procedures are all designed specifically for the real estate loan. Every substantial businessman knows the procedural differences between a simple collateral loan from a commercial bank on liquid security and the relatively complex closing on real estate, involving appraisal, forms of title evidence, adequate insurance coverages, and other appropriate safeguards. It is obvious that the proceedure for one type of loan is not applicable to the other. Simply on the basis of consumer interest, therefore, the continuance of separate institutions with their separate functions is the only satisfactory answer.

It is recognized that this dual system will not have a satisfactory business climate in which to exist unless the federal government also continues its rate ceilings. The recent fiasco in the money market by reason of a rate-free "wild-card" savings certificate created such great disruption that Congress took only two days to adopt Senate Joint Resolution 160, instructing federal banking agencies to establish rate ceilings for all deposits under $100,000.00. The Presidential signature to this law has seen a return of stability in the savings marketplace. There can probably be no better example than this of the danger to savings funds available for housing that would result from removal of rate ceilings on savings.

There can be no question of the ability of commercial banks and savings and loans to co-exist and operate successfully and effectively in a normal business environment. More than forty years of growth for both types of institutions attests to this fact. As President of this nation, you have committed yourself time and again to that which is in the best interest of the people of this country. This is to respectfully urge that the recommendations of the Hunt Committee are not in the best interest of the American public. The end result of your efforts to assist the two types of financial institutions to maintain their separate identities and to do so more effectively will better serve the American consumer than any other course available.

Sincerely yours,

A. Edwin Shinholser

A. Edwin Shinholser

AES/thm