Savings banks fight back

Leif Johnson reports on their lawsuit against Volcker and the Dereg Committee to rescue the housing sector.

The U.S. League of Savings Associations brought suit June 15 against Federal Reserve Chairman Paul A. Volcker and the Depository Institutions Deregulation Committee (DIDC), charging that the rules the Committee had adopted May 28 are illegal and will finish off the nation's homebuilding industry.

The League, which represents 5,000 savings and loan associations with nearly $600 billion in deposits, held what one banker described as a "war council" meeting of 600 S&L bankers in Washington June 24-25. Leaders of the Savings League also met with Fed Chairman Paul Volcker, who told them he intends to "reindustrialize America in the 80s and leave housing to the 90s.

Volcker informed the bankers that he would not budge from his position, and implied that his measures had "military implications." "After meeting with Volcker, now I know what you mean by that article, 'Is the Fed's Volcker actually insane?' " one savings banker told *EIR*.

Looking for allies

The Savings League suit is seen as part of a nationwide campaign to open a public debate on why Volcker and the deregulation committee are deliberately and unilaterally eliminating America's housing industry. The suit has been joined by the National Association of Home Builders, and may be supported by the National Association of Real Estate Brokers, construction suppliers and construction trades unions.

"We are going to fight this to the end. We have to, or the housing industry will go down and the entire savings and mortgage industry will go with it," said one Western savings bank president. "This isn't like Chrysler going under, it's like five Chryslers going under. This is the nation's largest industry."

On May 28 the Depository Institutions Deregulatory Committee (DIDC)—without the normal period for comment required for regulatory agency rulemaking—issued a set of rules which eliminated most deposit interest-rate-differentials between savings and commercial banks. The rules will enforce "downside disintermediation," or continued drain from the deposits at the savings banks.

Rule 0008 of the DIDC allows commercial banks to roll over their existing Money Market Certificates (MMC) at the same interest rate as the savings banks through November 30. Simultaneously, there is a 9-1/2 percent "minimum ceiling" on 30-month Special Savings Certificates (SSC) issued by the savings banks. It is estimated that the combined effect will be a drain of at least $17 billion from the savings banks in the coming months. This will, however, enhance the commercial banks' ability to roll over their estimated $46 billion in MMCs falling due in the next six months. It will also ensure that new mortgages must be issued at 10 percent or higher.

The housing picture

Fed Chairman Volcker's interest rate binge this spring has meanwhile reduced housing construction to the lowest levels since the Great Depression. In May 1980 housing starts were precisely half the level of the year before, and they continue to fall. David Stahl, head of the National Homebuilders, estimates that by the end of this year, 1.6 million workers in housing-related industries will be unemployed.

The "Volcker spring" also exacerbated the inflationary pushes in the housing industry that had been accumulating since 1977. In the period between 1977 and 1979, before the Volcker inflation, the average monthly payment for purchasers of new or used housing rose 38 percent—nearly 20 percent a year.

By March 1980 the annual income needed to buy an "average" home was $34,300. In California, the required income was estimated to be over $50,000. Yet the average household income nationally—including second and third incomes—is only $20,000 a year.

As a result, there has been a huge drop in mortgages issued. Robert O'Brien, President of the Carteret Savings and Loan in New Jersey, reports that the normal rate for his state is 36,000 a year but the present rate is 9,000. One medium sized S&L in New York City issued no home mortgages at all for nine months, concentrating instead on home improvement and "energy saving" loans.

S&Ls trapped

The desperate inflationary squeeze on the housing industry had prompted many savings and loan bankers to support the Reuss Omnibus Banking Bill passed March 30, which created the DIDC, in the hope that they would survive by gaining access to functions previously only allowed the commercial banks—trust accounts, Negotiable Orders of Withdrawal, and regular checking accounts.

The DIDC then pulled the rug from under the S&Ls by equalizing interest rates before they could diversify. A disastrous liquidity squeeze has followed.

Senator William Proxmire (D-Wisc.), a strong advocate of eliminating savings banks, has pending in committee his "failing bank" legislation which would abrogate the McFadden Act ban on major interstate bank takeovers.

According to David Cohen of Schroder Bank in New York, the "one-banking system" is not far away. "The only S&Ls left will be the rural ones; the urban S&Ls will either become "family center banks" or go into a broader mortgage market that includes commercial and industrial real estate."

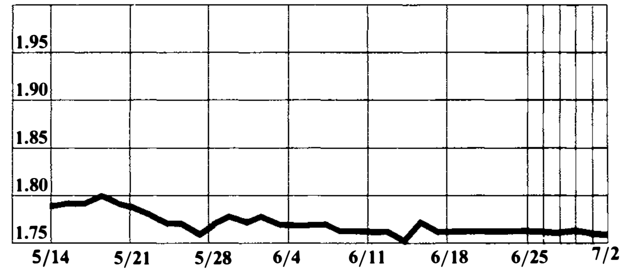
Such "family center banks," however, with many fewer branches and less expertise, will fall easy prey to the money-center giants like Citibank or Bank of America, while mortgage institutions enter competition with mortgage trusts and insurance companies. Cohen estimates that 10 percent of the S&Ls will be merged, acquired, or will fail by the end of 1981.

A special report by the *Executive Intelligence Review* documents Citibank's leading role in shifting the economy to a low-growth "service" orientation over the past two decades, and the bank's close coordination with the regulatory agencies in pursuit of the "one-banking" strategy. Now available for $250, the report is titled "Citibank Strategy for the 80s: Restructuring the U.S. Banking System." For information, call *EIR* at (212) 247-8820.

Foreign Exchange

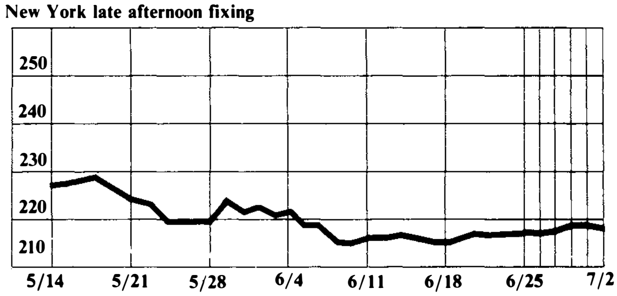
The dollar in deutschemarks

New York late afternoon fixing



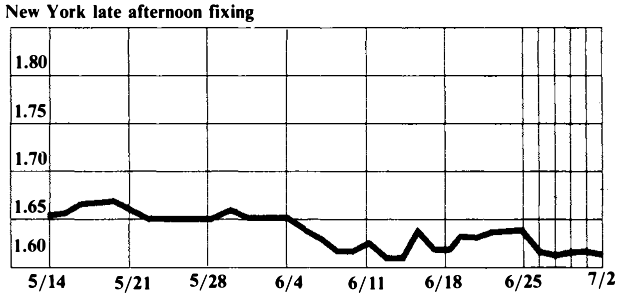
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing