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Statement on

Community Reinvestment Act, Home Mortgage
Disclosure Act, Deposit Interest Rate Controls, and
Alternative Mortgage Instruments

Presented to the

Subcommittee on Financial Institutions Supervision,
Regulation and Insurance of the House Committee on
Banking, Finance and Urban Affairs
United States House of Representatives

by

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Mr. Chairman, I welcome the opportunity to present the views of the FDIC on the Home Mortgage Disclosure Act (HMDA), the Community Reinvestment Act (CRA), the extension of deposit interest rate controls (Regulation Q), and alternative mortgage instruments.

These four subjects relate to the national policy goal of providing sufficient housing in the United States. Deposit interest rate controls are intended to foster an adequate supply of funds for housing at reasonable cost, while HMDA and CRA are intended to encourage the distribution of funds to meet the housing needs of low- and moderate-income neighborhoods. However, the CRA is not limited just to housing credit; its objective is to encourage financial institutions to help meet the credit needs of the local communities in which they are chartered. This broader objective recognizes that stable, viable neighborhoods require credit for activities other than housing if neighborhood decay and deterioration are to be prevented.

Few would dispute the legitimacy of the goals of providing adequate housing and preventing community deterioration. However, considerable debate centers around how best to attain those goals. There is a growing consensus that the private sector is unable or unwilling to ensure fulfillment of those goals. This has contributed to the passage of legislation mandating governmental intervention. Unfortunately, the methods of this intervention have not always been successful in achieving the desired goals. Sometimes, as is the case with Regulation Q, there have been adverse effects. All too frequently, the benefits derived from governmental intervention are offset or overwhelmed by the direct costs of additional paper work and red tape and by the indirect costs stemming from loss of flexibility to respond innovatively and quickly to a complex and rapidly changing economy. Vigilance must be maintained constantly to avoid such difficulties and to seek out workable and efficient solutions to problems.

With these thoughts in mind I will comment on each subject in turn beginning with CRA.

I. Community Reinvestment Act

President Carter signed the Community Develcpment Act of 1977 into law on October 12, 1977. In Title VIII of that Act, the Community Reinvestment Act, Congress found that:

(1) regulated financial institutions are required by law to demonstrate that their deposit facilities serve the convenience and needs of the community in which they are chartered to do business,

(2) the convenience and needs of communities include the need for credit services as well as deposit services, and

(3) regulated financial institutions have a continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered.

Based on these findings, Congress required "...each appropriate Federal financial supervisory agency to use its authority when examining financial institutions, to encourage such institutions to help meet the credit needs of the local communities in which they are chartered consistent with the safe and sound operation of such institutions."

Section 804 of the CRA directs each appropriate Federal financial supervisory agency, in connection with its examination of a financial institution, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. The appropriate supervisory agency must take that record into account in its evaluation of any application by the financial institution for a charter, deposit insurance, branch or other deposit facility, office relocation, or merger. Section 806 of the CRA directs each supervisory agency to publish regulations to carry out the purposes of the Act. These regulations must take effect no later than November 6, 1978.

Encouragement of financial institutions to help meet the credit needs of their local communities is a meritorious goal. It has our total support. There is little in the Act or its legislative history, however, that provides guidance for achieving that goal. In apparent recognition of this, Congress gave the agencies an extended period in which to develop implementing regulations. The legislative history clearly shows Congressional discomfort over the role government should play in guiding the activities of financial institutions. Some would have preferred to see direct credit allocation requirements imposed on financial institutions. Others preferred no governmental intervention of any kind. The resulting legislation was a compromise. In lieu of direct credit allocation, financial institutions were encouraged to meet the credit needs of their communities consistent with the principles of safe and sound operation. To accommodate fears that the supervisory agencies might impose burdensome regulations, the legislative history instructed the agencies not to impose additional paperwork and record-keeping burdens on financial institutions.

Because of this lack of guidance and because of the passions the CRA has raised both before and since its passage, the supervisory agencies decided to hold public hearings prior to drafting implementing regulations. One objective of the hearings was to afford the agencies the opportunity to gain a better understanding of complex issues, both procedural and substantive, that would have to be dealt with in a regulation. Another objective was to make the public aware of some of the agencies' concerns. To facilitate the second objective, the agencies issued a series of questions and issues and asked those submitting testimony or written statements to present their views. (A copy of these questions and issues is attached.) The questions dealt with the definitions of community and credit needs, with ways of assessing an institution's record and of evaluating applications, and with other administrative matters. The hearings were held in Washington, Boston, Atlanta, Chicago, Dallas, San Francisco, and New York during March and April.

Consumer and neighborhood groups, bankers, State government officials, and others presented their views. Much of the testimony was constructive; some was not. Some witnesses, rankling under the prospect of more regulation, shook their fists instead of offering positive suggestions. Others recommended elaborate enforcement schemes, oblivious to cautions stated in the CRA's legislative history and insensitive to the administrative burdens and costs such schemes would require.

Many senior officials from the agencies, including myself, attended one or more of these hearings. Not only did the hearings provide a forum for many different viewpoints to be aired, they also contributed to the development of a better understanding of the problems of individual neighborhoods. It became clear that each city, each community, and each neighborhood has problems that are unique, and that attempts to define community and credit needs within the regulation would be self-defeating. Either the regulation would have to incorporate all possibilities or there would be risk that certain communities would be placed at a disadvantage because they did not fit within any of the defined categories. Furthermore, administration of such a regulation would consume considerable agency resources.

As the hearings proceeded, there began to emerge an approach to drafting the regulations that would rely on financial institutions and the public in dealing with the complex issues of defining community and credit needs. Rather than attempting to incorporate definitions of community and credit needs within the regulation, an institution would be required to develop these definitions consistent with guidelines provided in the regulation. These definitions would be made available for public review and comment. The agencies would review the definitions and the public commentary to determine whether each institution was acting in good faith and would assess the institution's record in meeting the credit needs of its local communities. The record would consist of statements of the institution's intentions, public commentary, and other information relevant to assessing the record. For the benefit of the institution, the public, and examiners, the regulation would contain a listing of factors the agencies would evaluate in assessing the institution's record.

In addition to providing flexibility in accommodating diverse situations, this approach would minimize direct governmental intervention by relying on the self-regulatory process inherent in our democratic society. In effect, the objective would be to provide a forum in which the interests of both providers and users of credit could be brought to bear on the issue of the best uses for that credit. This approach was bound not to be wholly satisfying to any one group. On the one hand, institutions would have to give up some of their control over the granting of credit. On the other hand, neighborhood groups would not be able to dictate to whom and for what purpose credit should be granted. Nevertheless, this approach, which was adopted in substance by the four agencies early in the drafting of the regulation, is in the best tradition of the American democratic process.

Once the basic approach had been agreed to, the agencies set themselves to resolving the details of a proposed regulation. While participating in the drafting process, the FDIC had several objectives. These included a regulation which would (1) implement the stated purposes of the CRA, (2) keep additional record keeping and administrative burdens on banks to a minimum, (3) integrate CRA procedures for assessing the record into existing bank examination procedures, (4) provide guidance to the banks and to the public on the method of assessing the bank's record and on the use of the record in considering applications, and (5) be cost effective. We hope that the proposed regulation published for comment by the agencies in the July 11 edition of the Federal Register meets these goals. However, we have not yet been able to estimate fully costs associated with implementing the CRA.

The regulation would require each bank to prepare a delineation of the geographic area or areas comprising its entire community.

Although a large measure of discretion is provided, certain guidelines are provided to ensure that no low- or moderate-income neighborhoods within a bank's community are excluded. The objective of the required delineation is to specify the area in which a bank's performance can be measured. A bank which states that its community comprises a specified geographic area must be prepared to offer its credit services to existing and prospective residents of the defined area who qualify for those credit services.

The proposed regulation would also require each bank to prepare a Community Reinvestment Act statement. This statement, to be adopted by the bank's board of directors, would include the bank's delineation of its community, a list of the specific types of credit that the bank is prepared to extend to its community, and additional information that the bank considers to be helpful in describing how its efforts relate to meeting types of credit needed by its community. The CRA statement would be reviewed annually by the bank's board of directors and the statement together with commentary submitted by the public would be maintained and be available for public inspection for 2 years.

When the bank is examined, its record in meeting the credit needs of its community would be assessed using the 14 factors listed in the proposed regulation. (These factors are listed in Section 345.4 of the proposed regulation which is appended.)

Although the proposed regulation has been published for comment, much additional work remains to be done in connection with the implementation of CRA. The examiner's ability to assess a bank's record of meeting the credit needs of its community is crucial to the ultimate effectiveness of the CRA. Examination procedures and training are under careful review by a task force established by the Interagency Supervisory Committee.

It seems likely that the examination procedures that are being developed will focus on an institution's compliance with the requirements of the regulation, the reasonableness of its determination of its entire community, and the manner in which it has been serving the credit needs of its community. Several issues are presently under consideration, including (1) the weight to be accorded various lending activities and practices in assessing an institution's overall record; (2) the standard to be applied in determining whether an institution's record is inadequate or deficient overall or in some particular aspect; and (3) methods that might be used, apart from the application process, to encourage an institution to remedy deficiencies or inadequacies in its lending record.

Another interagency task force is presently reviewing procedural regulations governing agency processing of applications submitted by financial institutions for charters, branches, mergers, etc. We believe that the FDIC's existing procedural regulations for processing applications provide all the elements necessary to ensure fair and adequate consideration of an applicant's CRA record. However, we are reviewing the notice provisions to ensure that persons or groups in the community will have every reasonable opportunity to submit comments, objections, and information. Application forms will be revised to require the submission of information that will assist the examiner's assessment of the applicant bank's record in meeting the credit needs of its community.

We at the FDIC intend to do our part in seeing that the mandate of the CRA is met. However, we and the other supervisory agencies cannot accomplish the task alone. Banks, community groups, and State and local governments must do their share in providing relevant information to us on a timely basis. The success of the CRA depends on a cooperative effort and continuing communication among all concerned parties. However, cooperation in the context of CRA alone will be insufficient to prevent the deterioration and decay of some neighborhoods. Adequate public services such as police and fire protection must be provided. Other forms of assistance, both public and private, might be essential to make provision of credit by financial institutions more attractive and less risky. No one can or should expect a financial institution to make unprofitable loans simply because it happens to be located in a certain community.

Nevertheless, I believe that financial institutions are in a better position than government or the supervisory agencies to assist their communities. They know firsthand the unique problems in their communities and those individuals and organizations that offer the best opportunities to deal with those problems. An institution that is committed to serving and improving its community, not only by serving its current customers but also those who for various reasons are not presently customers, will prosper because the community will prosper.

II. Home Mortgage Disclosure Act

While the Community Reinvestment Act requires the Federal financial institution supervisory agencies to encourage financial institutions to help meet the credit needs of their communities, HMDA requires financial institutions to disclose to the public the amount of their housing-related lending. HMDA was enacted in 1976 prior to enactment of the CRA and was intended to let the public know each affected institution's record of providing housing-related loans by census tract. Congress believed that the availability of such information to the public would spur financial institutions to increase their housing lending to low- and moderate-income urban neighborhoods.

HMDA was implemented by the Federal Reserve Board's Regulation C on June 28, 1976. This Act will expire on June 28, 1980, unless extended by the Congress. HMDA requires depository institutions with assets of $10 million or more that operate one or more offices within a standard metropolitan statistical area (SMSA) to disclose the number and dollar amount of mortgage and home improvement loans granted during the previous fiscal year. These data must be reported for each census tract within the SMSAs in which the institution operates. This information must also be categorized by type of loan and type of property. Each institution is required to make these disclosure statements available to the public within each SMSA in which it operates.

The FDIC has gained considerable experience over the last 2 years in determining whether insured State nonmember banks are complying with HMDA and the requirements of Regulation C. The FDIC has also benefited from the experiences of persons and organizations who have attempted to utilize and analyze HMDA data. Based on these experiences, the FDIC has reached some tentative conclusions concerning the usefulness of HMDA.

Full and meaningful disclosure of relevant information can establish effective and efficient market-based mechanisms for directing the activities of an institution or an industry in a socially desirable manner. However, disclosure that is incomplete, incorrect, or obscure is not useful and might be misleading. Care must be exercised to ensure that the information necessary to monitor an institution's activities is disclosed appropriately. Measured by this standard, HMDA fares reasonably well, yet there is room for considerable improvement.

Possibly the most beneficial aspect of the HMDA disclosure statement is that it shows the extent of an institution's housing-related lending to specific geographic areas. This provides the basis to those using the disclosure statement to raise questions as to an institution's lending policies in extending housing credit to particular areas. To some degree the data also help to show the availability and sufficiency of housing credit in specific neighborhoods. However, the usefulness of the HMDA data is affected by basic conceptual difficulties.

Taken by themselves, the data are susceptible to misinterpretation because they reveal little about the actual demand for housing credit in specific geographic areas. Furthermore, the disclosed data cover only a portion of the total housing credit flows to a neighborhood or market area. Institutions that are not subject to the Act can be significant mortgage originators. Credit flows within a particular area will be understated to the extent that nondepository institutions retain the mortgages they originate, or sell them to institutions either located outside of the SMSA of origination, or not covered by HMDA. In addition, the exclusion of the secondary mortgage market institutions such as FNMA and FHLMC from HMDA coverage will also cause housing credit flows to be understated.

Perhaps because of these limitations, HMDA disclosure statements have not been used as widely as many originally anticipated. Nevertheless, use of these statements has increased over the last 2 years and especially since the enactment of the CRA last year. Community and public interest groups have been the major users of this information to date. Other financial institutions have also been major users. Nevertheless, according to the FDIC's examiners, many banks have never received a request for their HMDA reports. While the conceptual problems with the HMDA data are certainly a factor contributing to their limited use, technical problems associated with obtaining the data and converting them to a meaningful and usable form are also significant deterrents. One solution to the technical problems would be to centralize collection and processing of HMDA statements. This approach has been taken by some States in connection with disclosure statements required by State law. Given the conceptual problems associated with HMDA, the Federal supervisory agencies have been reluctant to commit the resources and absorb the costs that centralized collection and processing of HMDA data would entail.

These conceptual and technical problems, as well as statutory responsibilities for enforcing HMDA and for recommending improvements in the Act, prompted the FDIC and the Federal Home Loan Bank Board (FHLBB) to fund a comprehensive study of HMDA. The project is being conducted in conjunction with a request for information from Senator William Proxmire.

The study focuses on commercial banks, mutual savings banks, and savings and loan associations located in the Chicago (Illinois), San Diego (California), and Buffalo (New York) SMSAs. The study will provide information and analyses concerning the following issues:

1. Costs of Central Processing. Model computer programs have been developed and are being tested using the HMDA and State disclosure statements prepared by financial institutions in the three SMSAs. The purpose is to devise a systematic way of processing HMDA data. The costs of performing this function on a continuing basis for other SMSAs will be estimated.

2. Report Accuracy. The study will provide estimates of the error rates in assigning a census tract identifier to a street address (geocoding errors) and in classifying loan types. Causes of these errors will also be identified and analyzed.

3. HMDA Completeness. The proportion of mortgage orginations accounted for by institutions subject to HMDA will be determined and the alternative sources of mortgage credit flows will be identified.

4. Compliance Costs. Estimates will be made of the costs to the institutions of complying with HMDA. The provisions of the Act will be analyzed and changes designed to reduce compliance costs will be recommended.

5. Regulatory Effectiveness. Current HMDA compliance examination procedures will be analyzed to identify changes that would improve the efficiency and effectiveness of the procedures.

6. Relation of HMDA to other Agency Responsibilities. Analyses will be performed of the requirements of the CRA, the Equal Credit Opportunity Act, and other pertinent laws and regulations in relation to the applicability and usefulness of HMDA data.

7. Improved Geocoding Methods. An analysis will be made of the available methods of assigning a census tract identifier to a street address and recommendations will be made regarding the most accurate and efficient techniques.

Although the study has not progressed sufficiently to make other than preliminary statements, the accuracy of geocoding appears to be well within reasonable limits. The major sources of error appear to be in loan type misclassifications and the inclusion of types of credit not covered under the provisions of the Act. Aside from these few preliminary results, the project is progressing on schedule and should be completed by the end of this year. Final copies of the reports being prepared as part of this study will be provided to this Subcommittee.

Many of the problems with HMDA that I have pointed out are addressed by the joint FDIC/FHLBB study. However, there are certain issues that are not included within the scope of that study. These include the public availability of information about financial institution lending policies and activities over previous time periods, prevailing credit terms, and default experience on mortgage loans. Another issue is the extension of disclosure requirements similar to HMDA to other forms of credit. Some of these issues may well be addressed within the context of the CRA, not necessarily through public disclosure of information but through examiner assessment of the bank's record.

As stated previously, we support the concept of disclosure because it enables the public to make informed decisions. However, disclosure is effective only if the information provided is timely, accurate, meaningful, and useful to potential users of the information. While HMDA data appear to possess the first two qualities, there is doubt about the other two. If it is deemed appropriate to continue some form of mandatory disclosure after the expiration of HMDA, a more useful system of disclosure should be designed. In designing such a system, the costs to financial institutions and the public should be determined and be measured against the anticipated benefits. The results of the FDIC/FHLBB study should be useful in designing an effective and cost efficient HMDA. We would be happy to assist in such an endeavor.

We would, however, recommend amending the enforcement provisions of HMDA at this time to transfer enforcement jurisdiction over noninsured savings and loan associations from the FDIC to the Federal Home Loan Bank Board and to give both the FDIC and the FHLBB express authority to conduct investigations (including on-site examinations) and require reports from noninsured institutions subject to their respective enforcement jurisdiction under that Act. Presently, Section 305(b) of that Act confers enforcement jurisdiction on the FDIC with respect to both noninsured banks and noninsured savings and loan associations. Authority over the latter would more appropriately reside with the FHLBB. This recommendation could be implemented through adoption of the following amendment:

> (a) Section 305(b)(1)(C) of the Home Mortgage Disclosure Act of 1975 (12 U.S.C. 2805(b)(1)(C)) is amended by deleting "any other depository institution" and by substituting therefor "any other commercial or savings bank".
> (b) Section 305(b)(2) is amended to add before the semicolon: "any other savings and loan, building and loan or homestead association (or cooperative bank)".
> (c) Section 305(c) is amended by adding at the end thereof "; and any such agency may, for such purpose, conduct investigations (including on-site

examinations) of and require reports and other data from any institution over which it has enforcement jurisdiction under subsection (b)."

III. Extension of Regulation Q Authority

The flexible authority of the FDIC, the Federal Reserve System, and the FHLBB to impose interest rate ceilings on deposits (extension of Regulation Q) is scheduled to expire December 15, 1978. Last year, Secretary of the Treasury Blumenthal requested that Regulation Q authority be extended to December 15, 1979, to allow the Administration sufficient time to complete its study of Regulation Q. In his letter to the President of the Senate, Secretary Blumenthal stated that "this would allow the Administration sufficient time to study the impact of (1) Regulation Q on financial intermediaries, consumers, and the mortgage market, and (2) the elimination of unnecessary Federal regulatory constraints. This study is being conducted by the Interagency Task Force on Deposit Interest Rate Ceilings and Housing Credit, under the leadership of the Treasury Department and the Department of Housing and Urban Development. The Congress eventually decided to extend Regulation Q for 1 rather than the requested 2 years.

Although we do not object to further extension of Regulation Q authority in order for the Administration to complete its study and develop its position on this matter, we would prefer that the Congress face up to the issues raised by Regulation Q and devise a strategy for phasing out this inefficient and inequitable form of credit allocation as soon as possible. Our experience over the years and the extensive discussions of the subject in the past lead us to question the effectiveness of ceilings on deposit rates.

Notwithstanding the linkage of deposit interest rate ceilings and housing goals, we believe that ceilings are an inefficient means of assisting housing and assuring the stabiity of thrift institutions. Requlation Q simply has not worked well as a device for allocating funds to housing. While it might protect thrift institutions from commercial bank competition to a certain extent, it has not protected them from competition from the unregulated money market. In times of high interest rates, such as was the case in 1966, 1969-70, and 1973-74, many depositors invested their funds directly in money market instruments. As a result of this disintermediation, the mortgage market dries up and thrift institutions suffer earnings and liquidity pressures.

Two months ago the FDIC, the Federal Reserve Board and the FHLBB authorized two new certificates of deposit (CDs) in an attempt to blunt another round of disintermediation. Both types of CDs permit banks and thrift institutions to pay higher interest rates. Commercial banks may pay interest on the money market certificate, a 6-month, nonnegotiable CD of $10,000 or more, at a rate equal to the average auction discount rate on the most recently issued 6-month U.S. Treasury bills. Under the other, commercial banks may pay 7-3/4 percent on 8-year CDs issued in denominations of $1,000 or more. In both cases the ceiling for mutual savings banks and savings and loan associations is 1/4 of 1 percent higher.

FDIC staff analysis of the first month's experience indicates that these instruments have been successful in reducing the extent of disintermediation. Nevertheless, these new CDs, while ameliorating the effects of disintermediation, are only a "second best" solution to the problem. They merely chip away at Regulation Q in a somewhat inefficient manner. Because flexible adjustments to rising market rates do not prevail for all savings-type instruments, depositors are induced to shift their deposits into and out of these new CDs as market interest rates change. This increases administrative costs for financial institutions. Eventually these costs must be passed on to the consumer or be absorbed by the institution.

Another reason why we favor the elimination of Regulation Q is that interest rate ceilings on deposits constitute a regressive and inequitable tax on small savers. An FDIC staff study on the burden of Regulation Q is currently underway and has already provided preliminary findings. The results confirm that lower income groups bear a disproportionate share of the burden, and this burden appears to be substantial.

In short, because we believe that interest rate ceilings are an ineffective and sometimes disruptive form of credit allocation and because we believe that they impose significant inequities on small savers, it is our judgment that the proper focus of attention should be on how and when, and not whether, to phase out interest rate ceilings. For this reason, we favor designation of a specific date for their demise. We believe that only in the context of such certainty will bankers and regulators begin to plan seriously.

While working toward the phasing out of deposit interest rate ceilings, action should also be taken to eliminate other restrictions that place unnecessary and burdensome costs on depository institutions -- costs which inevitably work to the detriment of the consumer as well as the banker. One particularly noteworthy set of restrictions is usury laws imposed by some States on the interest rates institutions may charge borrowers on certain types of loans. A study of the impact of usury ceilings was recently completed by our staff. The major conclusions are that: (1) usury ceilings prevent higher-risk (usually lower income) borrowers from acquiring credit, (2) geographic distribution of credit is adversely affected by usury ceilings (credit is prevented from flowing to areas in accordance with demand), and (3) usury laws reduce the total volume of credit.

IV. Alternative Mortgage Instruments

On various occasions members of this Subcommittee have stressed the importance of providing adequate and stable credit flows to housing. The elimination of rate ceilings alone will not achieve this result. Part of the problem stems from difficulties inherent in traditional fixed-rate mortgages. These difficulties become especially severe during periods of inflation and rising market interest rates.

Earnings of financial institutions that are heavily invested in fixed-rate mortgages are squeezed when market interest rates rise. This problem is especially acute for savings and loan associations and mutual savings banks which hold a predominant proportion of their assets in mortgages. The earnings problem results from a mismatching of asset and deposit maturities. The average rate of return on long-term, fixed-rate mortgage portfolios adjusts slowly over time. However, deposit maturities are much shorter and, hence, the average cost of funds adjusts more quickly. When market rates rise, interest costs rise more quickly than loan revenues, thus causing earnings to decline.

Broader asset powers, including alternative mortgage instruments, will help alleviate thrift institution earnings problems. Alternative mortgage instruments give lending institutions the flexibility to offer a greater amount of mortgage credit to a larger cross-section of borrowers. Borrowers, in turn, are afforded the opporuntity of choosing a mortgage contract with interest rate provisions and payment schedules that are compatible with current income, expected future income, and expected re-entry into the mortgage market in the future.

I hasten to add that we are very much aware of the concerns that financial institutions using alternative mortgage instruments will take advantage of consumers. These concerns should not be taken lightly. Because most alternative instruments are intrinsically more complex than fixed-rate mortgages, consumers must be provided with sufficient information to compare alternative contracts. Therefore, contracts should be simplified and standardized as much as possible and rates should be converted to annual percentage rates. Moreover, financial institutions should be required to have tables readily available to the public which indicate the monthly payments for each interest rate and maturity for various types of alternative mortgage instruments.

Another consumer safeguard is to give the borrower the opportunity to refinance the mortgage and/or convert to other types of mortgages. A recent Federal Home Loan Bank Board survey revealed that conversion privileges are very important to variable rate mortgage borrowers.

A variety of alternative mortgage instruments has been proposed and is in limited use today. Clearly, some instruments are better suited to meeting the needs of borrowers of different ages and income than are others. We believe that the best approach for meeting the diverse needs of mortgage borrowers and, at the same time, reducing the maturity-matching problem facing financial institutions is to permit financial institutions to offer a variety of alternative types of mortgage instruments.

Mr. Chairman, I thank you for this opportunity to discuss these issues. We are willing to provide additional information that the Subcommittee may deem useful in reviewing these issues.

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The attachments referred to on pages 4 and 7 are available from the Office of Information, Federal Deposit Insurance Corporation, Washington, D.C. 20429.