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Stephen S. Gardner
Vice Chairman, Federal Reserve Board

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I am delighted to be here and have the opportunity to address this fine audience. The NAFCU and I have gotten along well in debates before Congress that concerned extending the powers of Federal, in fact all, credit unions. While I used to worry about Credit Unions as a private banker, now I have an account with the Federal Reserve Federal Credit Union. This isn't the typical conversion of a former sinner; it's more a commentary on how our system works. Obviously, banks and many other financial institutions compete with credit unions. But government regulators cannot overlook the 20,000 credit unions that are a major part of the financial structure in this country for millions of Americans.

Your conference committee originally asked me to join in a panel discussion with the National Credit Union Administrator and the Chairman of the Federal Home Loan Bank Board. Their defection is your loss, but in another sense it's perhaps appropriate. Part of their responsibility has traditionally been viewed to be advocacy of the industries they represent in this highly competitive economy. The Federal Reserve as the nation's monetary authority and central bank has not been comfortable in an advocacy position for any one part of the nation's financial industry, and so I can try to express my views on regulatory trends here with, hopefully, objectivity and independence.

First, we're in a very sensitive phase of an important recovery in the economic cycle. It's been a quicker recovery than most observers would have guessed possible. The rate of inflation has been cut more rapidly than many expected. Liquidity of businesses and financial institutions has improved and business credit demand has been atypically lower than in past recoveries at this phase of the cycle. This has helped to keep interest rates from rising. Personal income and consumer spending seem to be proceeding at a healthy pace. The financial markets have recovered to a degree and are accepting new issues. The perceived inflation premium in interest rates has been narrowed. But while industrial production and GNP are moving up, investment in capital goods has risen only grudgingly rather than ~~leading~~ stimulating the recovery which would be more in character. More importantly, the number of people unemployed, despite a significant drop, is unacceptable. The construction industry, including home building, is still depressed. The continuity of social programs and government services and their expansion is threatened by the precarious finances of many state and local governments. Thus, the spectre of the damage that could be done by continuing unmanageable federal deficits haunts many people. These latter problems would, hopefully, be lessened by a continued recovery in the economy at the present rate. But that course may not be acceptable in 1976 when economic issues will be key issues in a national election.

I've been impressed with the rapid progress of the recovery. The conventional response has been that it occurred that way because we went so far down so fast. My answer is so what. We had a sharp and severe recession for a lot of reasons and some of the most basic causes have not been corrected. The energy problem has not been solved nor has the work necessary to assure a solution really begun. The slow growth of investment in capital goods means that we can again be imperiled by limited capacity in many key industries, a situation that foretells inflation. And those government deficits are still very large and can hardly be extinguished given the social sensitivities, which I share, of our people. In summary, the quick recovery was a blessing, but it leaves much to be desired in both the short and long term.

I began with an economic analysis and mentioned the campaign issue because the course of regulatory trends cannot move independently from the forces that shape our society for very long. As a result of our recent bitter experiences with the business cycle, we can expect that the government and the public will continue to pay attention to the safety and strength of financial businesses. Capital adequacy, insider loans, loans to affiliates, operations of foreign banks in the U.S., and operations of U.S. banks abroad will all receive attention from the public, the Congress, and the regulators. Because of the plight of cities and the disadvantaged, efforts to encourage, if not allocate, credit to housing will be pressed by government and statutes prohibiting discrimination in lending, and redlining will be strictly enforced. More record-keeping by business will become necessary, and more intensive supervision backed by stronger penalties will be required of regulators. These trends will be true of the general consumer protection measures benefiting women and the elderly and ethnic groups that society has slighted. The Fair Credit Reporting Act will require standards and norms for disclosure on all types of credit transactions. The <u>holder-in-due-course</u> rule published by the Federal Trade Commission is just another example of the new concept of a lender's role and responsibility to society. The pressures for broadened powers to savings businesses and credit unions while basically a legislative matter will influence regulation of interest rate ceilings on savings, and the regulations that govern transaction balances such as checking accounts, share drafts and NOW accounts. Further, the monetary authorities will be trying to sort out the appropriate form of revision of regulations and laws governing reserves for demand deposits wherever such accounts are permitted.

Among all of these regulatory trends those that you are more likely to encounter in the short run are the consumer protection measures. They are in the law or regulatory powers of the agencies today. Some proposals are out for public comment. Some will be in the next few months. I don't really want to make a speech about these issues. The Congress has spoken, and the regulators are in the process of interpreting or administering the law through public hearings, participation in court cases in which the regulators' actions are being challenged, and in all the other ways that federal regulation evolves.

I am more interested in talking about the changes that are coming in the powers of financial institutions. This, I suspect, is the key issue that interests credit unions anyway. I am not going to be bold enough to predict exactly when Congress will pass legislation such as the F.I.A. You are going to hear from expert lobbyists and observers and from Congressmen themselves at this conference. They will be a better source for such forecasts. I would like to synthesize some of the reasons that I think the present opposition to change will be overcome.

Let's start with the pressure of state law. We tend to think in Washington that Federal regulation is all pervasive. We argue issues such as broadened powers for savings institutions, banks and credit unions as though we had a common form of financial structure law throughout 50 states. That, of course, is untrue. The northeast states have granted checking account powers to savings institutions, in some cases for many years. The trend has spread to New York. New Jersey is the next candidate. Savings and loans in Texas can grant consumer loans. In Rhode Island, most commercial banks are owned by savings institutions. The regulatory agencies have been petitioned by New England commercial banks to remove the differential granted savings institutions under Regualtion Q because they believe the savings banks have essential parity of powers. I could go on about variable rate mortgages in California, or refer to the differences in branch and holding company laws in many states, but the point is that state law leads or lags federal law. But it is law and we do not have a similar financial system in 50 states.

It's not hard to think of reasons for this situation. In a free economy, society's needs must be met by institutional forms that keep pace with change. We have seen great changes in the use and form of financial services in the last 20 years. The prospect of electronic transfers displacing paper instruments portends further and more dramatic differences in the way financial services are used by and sold to the public. The pressure of technological change is another compelling reason why I would not bet on the status quo. Congress is aware of this. You will hear from EFTS experts on a Congressional commission during your conference. It is also true that the issue is even now spilling over into court cases and state legislative issues in the dispute over whether off-premise customer terminals are branches of banks or not and whether debit cards are credit cards.

One of the key reasons broadened powers have not fared better in the Congress, of course, is the opposition of those that believe that the differential in Regulation Q is essential to housing. This argument and the counter arguments that Q is unfair to the small saver are well known. The thrust of the financial reform measures that are at issue is to grant powers to savings institutions which would permit them to compete more effectively and diminish the need for the price control protection they have in Q. When I look at the success of your industry in weathering periods of high interest rates, I think the proponents of reform have a powerful argument. Further, when I assess the volume and strength of consumer interest legislation in other fields I would have to wager again that the housing arguments will be overcome.

I think we have a uniquely competitive, diverse and efficient system of financial institutions in this country. But it is also true that because of its diversity and perhaps its success it is fractionated and resistant to change. This is further complicated by the fact that financial institutions are among the most heavily regulated industries in the U.S., and, thus, change must be accomplished largely by the legislative process. Credit unions have a broad and responsive constituency among the public and in the Congress. You can and do work industriously for changes that are beneficial to your industry. I want to conclude by urging you to also become involved in the whole cloth of financial institutional reform. While you could have some success in pressing for your own particular objectives, it is my assessment you are much more likely to achieve more flexible powers if the highly charged issues in institutional reform that affect savings institutions, commercial banks, and, indeed, yourselves are resolved in the next year for the public benefit. It's a pleasure to be here, and I will be happy to try and answer any questions you may have. Thank you.