

PUBLIC HEARING

before

SENATE LABOR, INDUSTRY AND PROFESSIONS COMMITTEE

on

ASSEMBLY, NO. 63

(Permits Insured Savings & Loan Associations to  
Offer Checking Accounts to Their Customers)

Held:  
November 9, 1978  
Senate Chamber  
State House  
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Senator Eugene J. Bedell (Chairman)  
Senator John T. Gregorio  
Senator James H. Wallwork

ALSO:

Thomas E. Leach, Jr., Research Associate  
Legislative Services Agency  
Aide, Senate Labor, Industry and Professions Committee

\* \* \* \* \*



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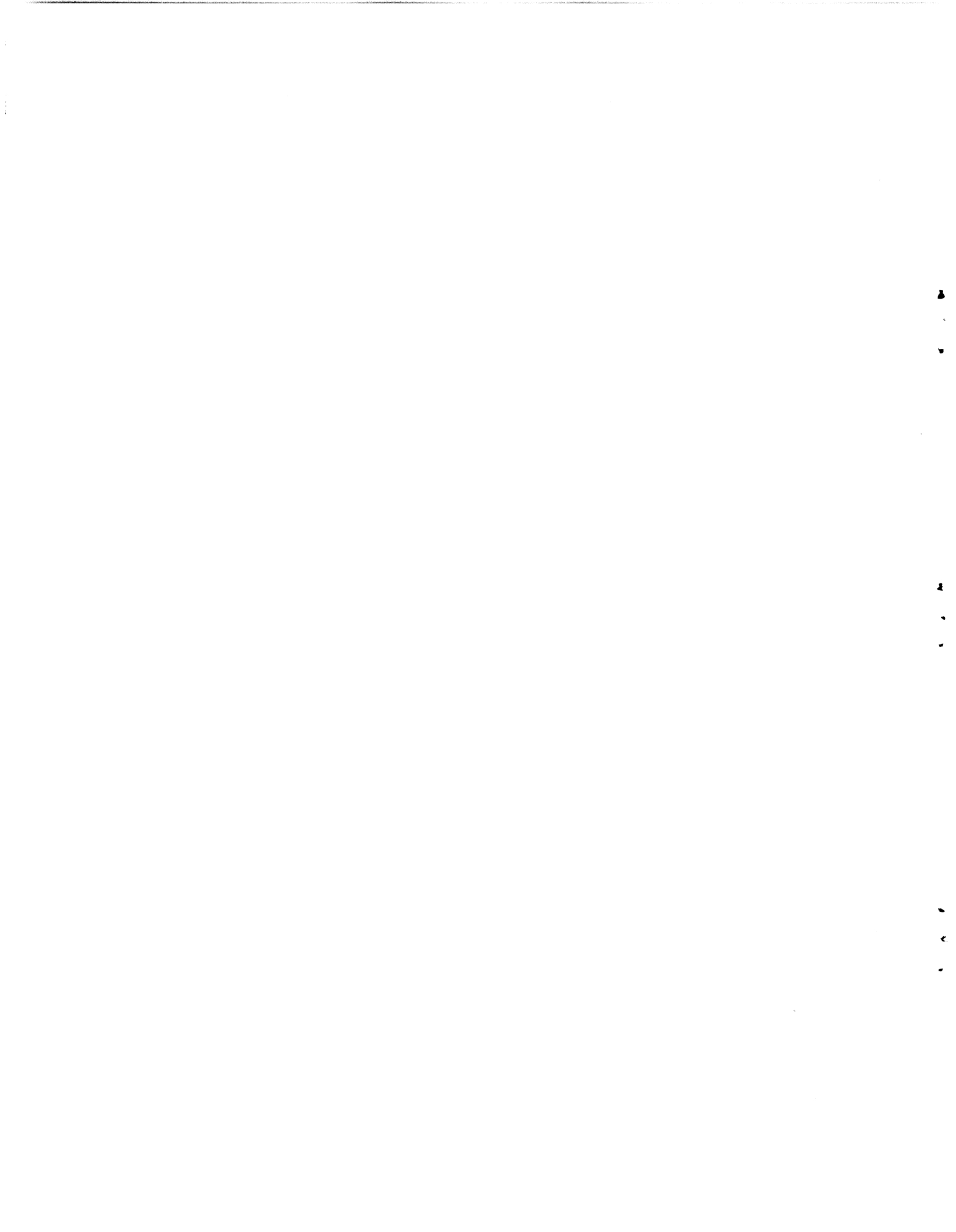
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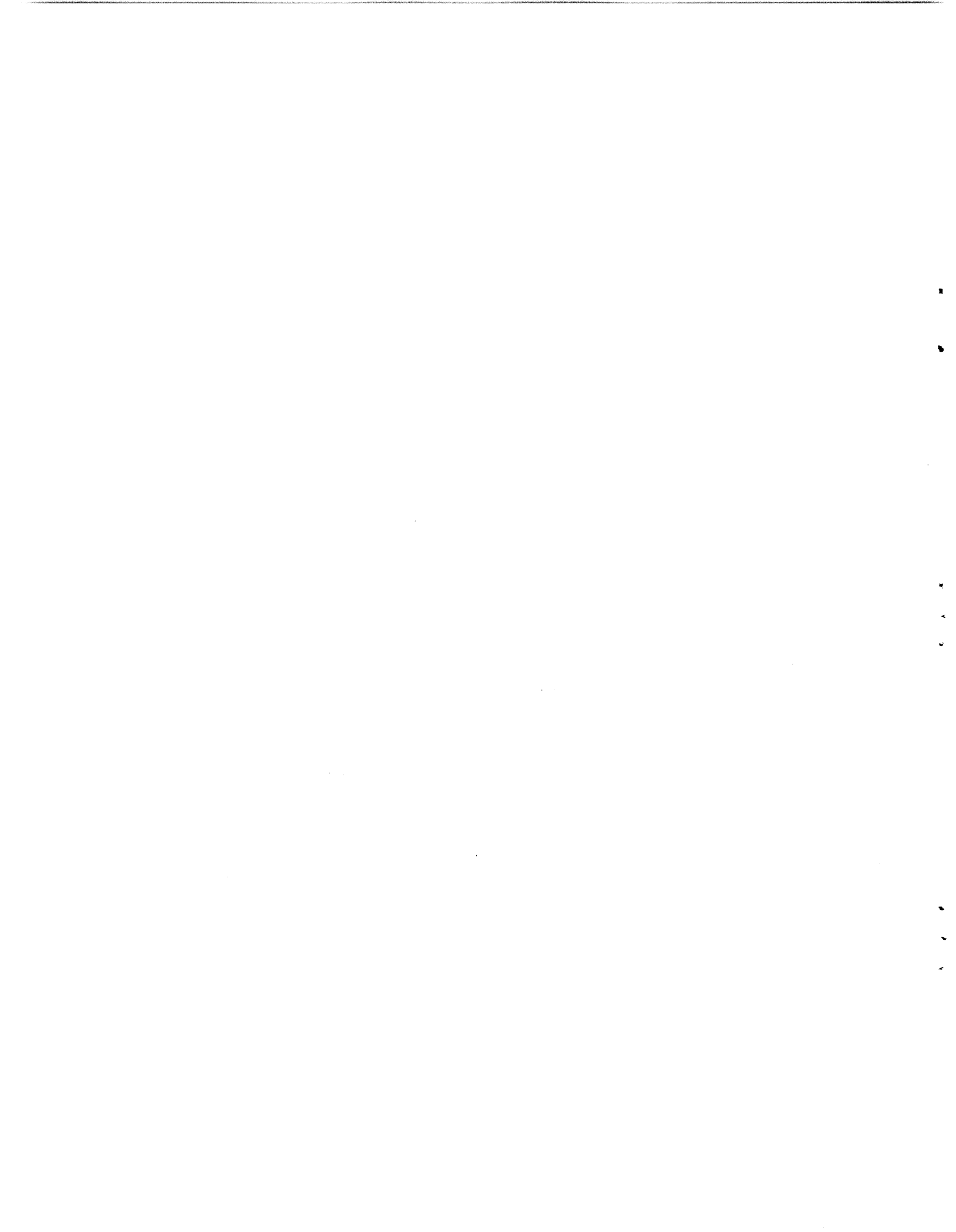
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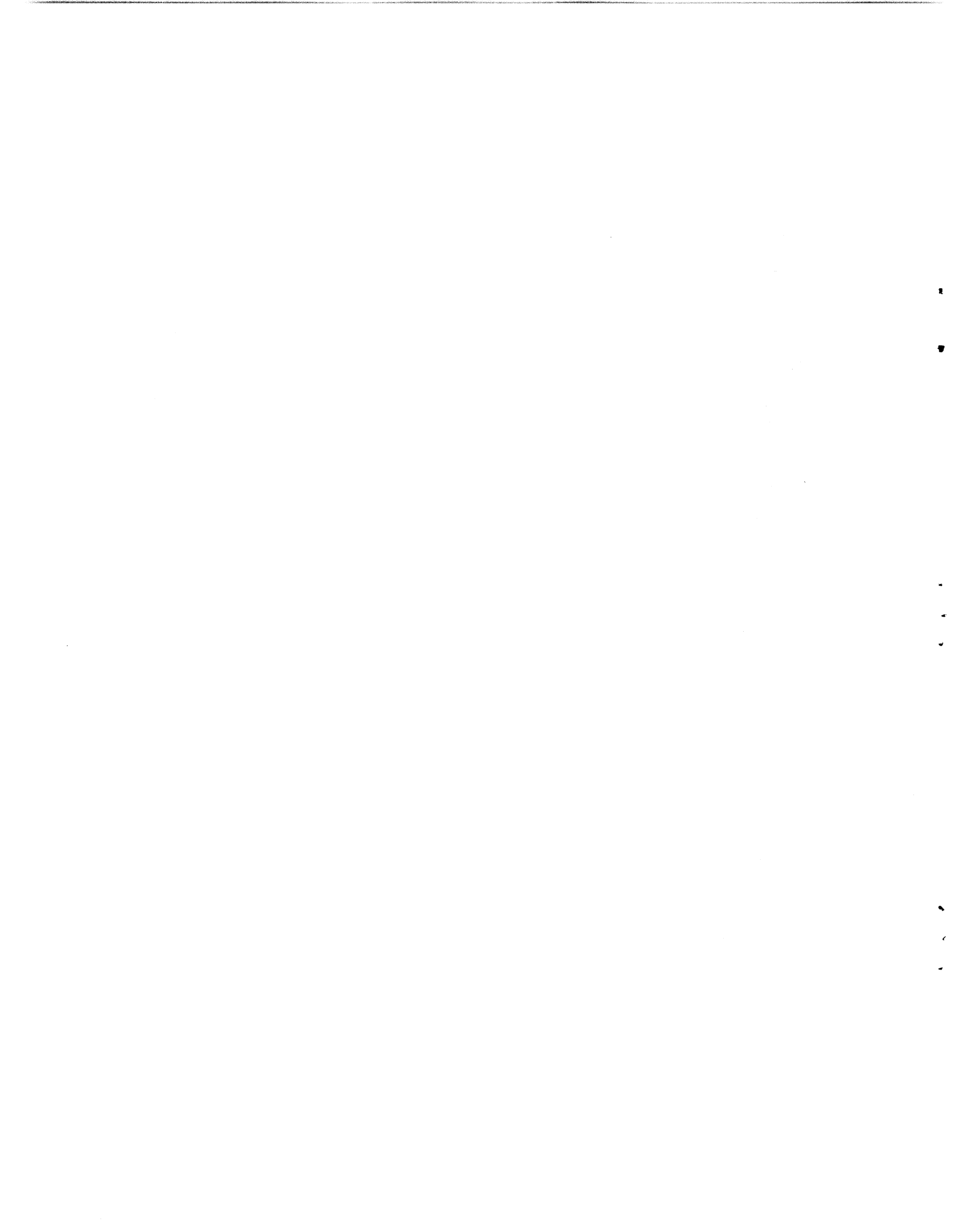
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[OFFICIAL COPY REPRINT]  
ASSEMBLY, No. 63

STATE OF NEW JERSEY

PRE-FILED FOR INTRODUCTION IN THE 1978 SESSION

By Assemblyman CODEY, Assemblywoman CURRAN and  
Assemblyman ORECHIO

AN ACT to amend the "Savings and Loan Act (1963)," approved  
August 30, 1963 (P. L. 1963, c. 144).

1 BE IT ENACTED *by the Senate and General Assembly of the State*  
2 *of New Jersey:*

1 1. Section 48 of P. L. 1963, c. 144 (C. 17:12B-48) of which this  
2 act is amendatory is amended to read as follows:

3 48. Specific powers. Without limiting the generality of the fore-  
4 going, every association shall have power to:

5 (1) Have succession by its corporate name for the period limited  
6 in its charter or certificate of incorporation, and when no period is  
7 limited, perpetually.

8 (2) Sue and be sued in any court.

9 (3) Adopt and use a corporate seal and alter the same.

10 (4) Purchase and otherwise acquire, hold, mortgage, pledge,  
11 lease, exchange, sell, convey and otherwise dispose of, any real and  
12 personal property, necessary or incidental to its operations and  
13 consistent with its powers and purposes.

14 (5) Insure its members' accounts with the Federal Savings and  
15 Loan Insurance Corporation, and comply with conditions necessary  
16 to obtain and maintain such insurance.

17 (6) Become a member of or stockholder in a Federal Home Loan  
18 Bank and to that end to comply with all conditions of membership  
19 therein.

20 (7) Act as agent for the United States or the State of New Jersey  
21 or any instrumentality of either of them, when designated for that  
22 purpose, and perform such reasonable duties as such agent as may  
23 be required of it.

**EXPLANATION**—Matter enclosed in bold-faced brackets [thus] in the above bill  
is not enacted and is intended to be omitted in the law.

24 (8) Join any cooperative league organized for the purpose of  
25 protecting and promoting the welfare of associations and their  
26 members and comply with all conditions of membership therein.

27 (9) Borrow money from any source in or out of the State, on the  
28 note, bond and mortgage or other obligation of the association upon  
29 such terms and conditions as the board may from time to time pre-  
30 scribe by resolution adopted by at least a majority of all the  
31 members of the board and duly recorded on the minutes and to  
32 pledge, assign or transfer mortgages, owned by the association and  
33 the obligation secured by such mortgages, together with the shares,  
34 if any, pledged as collateral security therefor, or any real or other  
35 personal property, as security for the repayment of money so  
36 borrowed. No association shall borrow money if by doing so the  
37 aggregate of its indebtedness for borrowed money other than to the  
38 Federal Home Loan Bank will exceed 20% of its capital, except  
39 with the approval of the commissioner.

40 (10) \*~~Take from its members, a premium for priority or privi-~~  
41 ~~lege of loan or acquisition of real estate and no premium so taken~~  
42 ~~shall be deemed usurious. The rate of premium may be agreed upon~~  
43 ~~or be determined by action.]~~ \* *(Deleted by amendment.)*\*

44 (11) Require an advance payment of interest for a period of 1  
45 month on any loan; and accept advance payments of interest, if  
46 made at the option of the debtor, for any period on any loan. None  
47 of such payments shall be deemed usurious.

48 (12) Where shares are issued, charge an admission fee, not to  
49 exceed \$0.25 per share, which shall include the cost of membership  
50 or share certificate and account book.

51 (13) Impose charges upon a member for failure to make any pay-  
52 ment to the association when due, but only as provided in this para-  
53 graph. Where the association issues installment share accounts it  
54 may impose such charge upon any member holding such an account  
55 or any borrower upon a sinking fund mortgage not in excess of 1%  
56 a month upon the amount in arrears, except for the first month's  
57 arrearage or the amount by which such first month's arrearage may  
58 be increased by subsequent arrearage in which case a charge not in  
59 excess of 5% may be imposed. Such charges shall be subject to the  
60 further limitations that no such charge shall be deducted from any  
61 amount actually paid by a member upon an account nor shall the  
62 total of any such charges against any account in any fiscal year ex-  
63 ceed the amount that may be charged for failure to make any pay-  
64 ments for a 6-month period nor shall any charge for default be made  
65 on a charge for default. Otherwise an association may impose a

66 charge for failure to make any required payment to it when due  
67 upon any loan or contract for the resale of real estate to a member  
68 not to exceed 4% of the amount of each payment in arrears but no  
69 more than one such charge may be made with respect to any one  
70 payment in arrears. An association may impose a reasonable  
71 service charge against any member who tenders to such association,  
72 for collection or as payment, a check or other instrument of any type  
73 which subsequently is not honored by the institution or person upon  
74 which such check or other instrument is drawn. None of such  
75 charges shall be deemed usurious.

76 (14) Compute interest upon any direct reduction loan, on desig-  
77 nated payment dates, and add the same to the unpaid balance of  
78 such loan.

79 (15) Act as agent for any person where such agency will further  
80 the interests of the association and its members, subject to such  
81 limitations as may be prescribed by the commissioner.

82 (16) Upon application to and approval by the commissioner, to  
83 act as custodian or trustee within the contemplation of the Federal  
84 Self-Employed Individuals Tax Retirement Act of 1962, as amended  
85 and supplemented, and the Employee Retirement Income Security  
86 Act of 1974 as amended and supplemented, and as custodian, trustee  
87 or manager of any such investment fund the authorized investments  
88 of which include, but need not be limited to, savings accounts or real  
89 estate loans, and the beneficial interests in which may be represented  
90 by transferable shares or certificates. Associations exercising the  
91 powers authorized by the subsection shall segregate all funds held in  
91a such fiduciary capacities from the general assets of the association  
92 and shall keep a separate set of books and records showing in detail  
93 all transactions made under authority of this subsection. If individ-  
94 ual records are kept for each self-employed individual's retirement  
95 plan and each such investment fund, then all such funds held in such  
96 fiduciary capacities by an association may be commingled for appro-  
97 priate purposes of investment. No funds held in such fiduciary  
98 capacities shall be used by an association in the conduct of its busi-  
99 ness; however, such funds may be invested in savings accounts of  
100 the association in the event that the custodial, trust or other plan  
101 does not prohibit such investment. In granting or refusing the  
102 association's application the commissioner shall take into consid-  
103 eration the investment policies, amount, type and adequacy of  
104 reserves, fidelity bonds and any legally required deposits of the  
105 applicant and other pertinent facts and circumstances.

106 (17) *Upon compliance with subsection (5) of this section, accept*  
107 *from its members accounts to be repaid upon such terms, not in-*

108 consistent with this act, as are approved by the Commissioner of  
109 Banking, by regulation or otherwise, provided that no account shall  
110 exceed the limitations established by section 78 of P. L. 1963, c. 144  
111 (C. 17:12B-78)\*, and provided further that no account shall be ac-  
111a cepted or issued in the name of any corporation, association or  
111b partnership or in the name of any individual for use in trade  
111c or business\*. An association issuing such accounts may honor  
112 demands for withdrawal of such accounts in the form of negotiable  
113 checks, drafts or orders in the form of electronic fund transfers  
114 and may become a member of a clearing facility and satisfy rea-  
115 sonable conditions required for its qualification and pay reasonable  
116 expenses therefore. Such accounts may be either interest-bearing  
117 or noninterest-bearing; provided, however, that the payment of  
118 interest on such accounts be permitted by Federal law. An associa-  
119 tion accepting accounts pursuant to this subsection shall, at all  
120 times, maintain reserves against such accounts as shall be pre-  
121 scribed in regulations issued by the commissioner in accordance  
122 with the "Administrative Procedure Act," P. L. 1968, c. 410  
123 (C. 52:14B-1 et seq.) but such reserves shall be equal in nature  
124 and amount to those required of savings banks in this State against  
125 similar accounts. Such reserves shall be maintained in cash or  
126 deposits in one or more reserve depositories as authorized by the  
127 Commissioner of Banking. Regulations of the commissioner may  
128 also provide that associations issuing such type of accounts main-  
129 tain a general reserve account, Federal insurance reserve account  
130 and undivided profits of specified minimum amounts and provide  
131 for minimum standards of office facilities in connection therewith.  
132 An insured association may impose a reasonable service charge for  
133 providing and maintaining such accounts for the benefits of its  
134 members.

1 2. This act shall take effect \***[immediately]**\* \*November 1,  
2 1978\*.

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ASSEMBLY BANKING AND INSURANCE COMMITTEE

STATEMENT TO

**ASSEMBLY, No. 63**

with Assembly committee amendments

**STATE OF NEW JERSEY**

DATED: MAY 31, 1978

This legislation would permit insured savings and loan associations to offer checking accounts to their customers.

The proposal to grant savings and loan associations the authority to provide third party payment services is an outgrowth of the recommendations made in the 1972 report of the Presidential Commission on Financial Structure and Regulation (the Hunt Commission). The commission recommended substantial changes in the regulatory structure governing financial institutions. It noted that the present structure, established in the 1930's and virtually unchanged since then, is no longer adequate in view of the economic changes and technological advances of the post-war period.

Originally, commercial banks and thrift institutions (savings banks and savings and loan associations) had separate, but complementary, functions. Commercial banks were permitted to offer third party payment services and a wide range of other services, including corporate loans, which made up a substantial portion of a bank's loan portfolio. Thrift institutions, on the other hand, were mutual (as opposed to stock) institutions which offered savings accounts and loaned money for residential mortgages, which made up about 90% of their loan portfolio. To attract savers' funds, and thereby insuring an adequate source of funds for housing, these institutions were permitted to pay a higher rate of interest on savings passbook accounts than were commercial banks.

Over the last decade the distinctions between these two types of financial institutions have gradually become somewhat blurred. Some savings and loan associations have converted from mutual to stock institutions and thrift institutions have begun offering additional services to their customers. The Hunt Commission suggested that this trend should continue, and recommended that the thrift institutions be permitted to offer certain additional services now permitted only to commercial banks. The commission noted that savings and loan associations needed increased flexibility to insure an adequate and steady supply of funds to meet the nation's demand for housing funds.

The Hunt Commission report was supplemented in 1975 by a study conducted by the House Subcommittee on Financial Institutions Supervision, Regulation and Insurance. This study, called the FINE (Financial Institutions and the Nation's Economy) Study, also recommended that thrift institutions be permitted to offer demand deposits to their customers.

In New Jersey, mutual savings banks, which also are permitted to pay a higher rate of interest on savings passbook accounts than are commercial banks, have been offering checking account services to their customers since the turn of the century. Thus, this legislation would establish parity among all state-chartered thrift institutions.

This legislation permits savings and loan associations to offer checking accounts to their customers. The accounts could be established on such terms, not inconsistent with the act, as are approved by the Commissioner of Banking. The bill establishes a ceiling of \$150,000.00 on accounts.

Demands for withdrawal could be honored in the form of negotiable checks, drafts, or orders in the form of electronic fund transfers. Associations would be permitted to become members of a clearing facility. The bill provides that the accounts may be interest bearing or non-interest bearing if the payment of interest on such accounts be permitted by Federal law.

Reserves would be required to be maintained against such accounts as prescribed by the commissioner, provided that such reserves are equal in nature and amount to those required of savings banks.

The committee has amended the bill to prohibit such accounts from being held by corporations or used in business, and has eliminated subsection (10) of Section 48 of the Savings and Loan Act of 1963 to prohibit savings and loan associations from charging points on mortgage loans. The committee has amended the effective date of the act, changing it to November 1, 1978, which is the date on which Federal regulations take effect, permitting commercial banks to transfer funds automatically from savings accounts to checking accounts to cover overdrafts.

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SENATOR EUGENE J. BEDELL (Chairman): This public hearing, conducted by the Senate Committee on Labor, Industry and the Professions is now in order. Before us is Assembly Bill A-63. We have a rather lengthy agenda of speakers. I would just like to preface the hearing by asking that you stick strictly to the point. We are all familiar in a general sense with what the issues are here and we certainly want to give everyone the opportunity to make their remarks and get them into the record. But, we would hope that if you have a lengthy written presentation you will submit it to the Committee and it will be reproduced as part of the hearing. If you would, in the interest of brevity and so that everyone who wants to speak has a chance to speak today, please stick as much to the point as is humanly possible and make your points germane to the issue at hand.

Before you today is Senator John Gregorio, who is a ranking member of the Committee and who is also the Mayor of Linden, New Jersey, and staff member Thomas Leach. We may be joined as the day wears on by other members of the Committee.

As our first witness I would like to call Assemblyman Codey. I understand he is here. He is the prime sponsor of the bill. Dick, would you just start the hearing out by setting forth what the objectives of your bill are?

A S S E M B L Y M A N R I C H A R D C O D E Y: Thank you, Mr. Chairman and Senator Gregorio. Thank you for the opportunity to appear at the hearing this morning on this very important bill.

The measure, A-63, of which I am a sponsor, is aimed at permitting savings and loan account holders to have the right to open checking accounts in the financial institution of their choice.

Millions of customers in New Jersey are being discriminated against by current law. The law now permits customers of all other types of banking institutions to have convenient access to their funds and to do so while earning interest on those funds.

I believe A-63 will correct the deficiency by allowing State chartered Savings and Loan Associations the initial step of offering checking services to their nearly 4,000,000 account holders.

The bill also provides that these Savings and Loans could pay interest on these accounts when Federal laws and regulations are updated to permit such interest payments.

Senators, in talking about the so-called interest on checking, I brought with me this morning something I received in the mail not too long ago, when my monthly checking statement came. It says: "Keeps your money earning interest until your check clears the bank." I must want to read a small portion of this so you understand what we are up against here. "Investment checking is a new" - and I don't want to give a plug to my bank - "plan which combines a checking account, a savings account, and an automatic transfer system. Together they make it possible for you to keep all of your money in a new savings account, right up until the time a check reaches the bank. Then, we automatically transfer the exact amount you need to cover the check in your checking account, which means your money keeps earning interest right up until the last minute. It is almost as though we are paying interest on your checking account, and legally investment checking is the closest we can come to doing just that."

I say to you Senators, would you keep your money in a Savings and Loan at the big quarter of a percent more interest, or is it more convenient and is it more logical to keep your money in a commercial bank, earning interest and at the

same time having your checking account there as you earn interest on your checking account - which you cannot do at the Savings and Loan because they are not even allowed to offer you checking accounts?

The passage of A-63 will allow the many people who have accounts in State Savings and Loans to join with the customers of Commercial banks, Savings banks, Credit Unions, and Federally chartered Savings and Loans, all of whom already have, or soon will be able to take advantage of, convenient bill-paying systems which pay interest. The Commercial bankers of New Jersey have mounted an intense lobbying effort against this consumer bill, which does little more than attack the Savings and Loan business in the State of New Jersey.

The bankers have said, for example, that Savings and Loans do not pay their fair share of taxes. It has been demonstrated time and again that the bankers' statement is a half truth at best. In fact, the Savings and Loans of New Jersey pay a higher percentage of total taxes than do Commercial Banks because their Federal taxes are so much greater than Commercial Banks. I think to any businessman the total picture is the bottom line.

The Commercial Bank lobby has also charged that A-63 sets up inadequate reserves on demand deposits. In fact, the bill not only establishes the same reserve requirements that apply to Savings Banks, but also gives the Banking Commissioner the authority to require higher reserves if he deems it necessary.

The other anti-checking argument brought up by the bankers has been that the Federal Reserve Board Regulation Q, which establishes savings account rate ceilings and a slight differential for all thrift institutions, places Commercial Banks at a competitive disadvantage. First of all, the Regulation and the law are Federal in nature and therefore our Legislature cannot deal with that issue. Second, Congress, after looking at all the facts, recently extended Regulation Q for another two years to protect the housing industry. Third, the bankers have been successful in eliminating differential on retirement accounts. And, just recently the differential on the new automatic transfer accounts was also eliminated.

Let's not forget what the bankers say about the competitive aspect of their industry. I urge you to release A-63 for a floor vote so that the law will allow the public to have convenient checking accounts in the institution of their choice. Thank you very much.

SENATOR BEDELL: Thank you very much, Assemblyman. Are there any questions? (no questions)

I have also been asked that one of my colleagues in the Senate be allowed to speak at this time. This is usually a privilege we do allow. Senator Joseph Maressa.

SENATOR JOSEPH MARESSA: Thank you, Senator Bedell and Senator Gregorio. I don't have a prepared statement but I would like to give a very brief statement at this time. I want to congratulate you for having this public hearing on this bill. I think it is important. I think the bill is extremely important.

I have been a member of the Board of Directors of a Savings and Loan institution for many years and I don't think that is disabling. I think it is important that some of us legislators sometimes become involved in things and get the pros and cons and the needs firsthand. I think everybody agrees that the Savings and Loan industry must remain alive and well. I think it is important to the economy.

I don't know if there was some message in the election results just the

other day. There may be. I think we all must agree that the necessary vitality in the Savings and Loan industry must be maintained.

Now, Gene, I don't know whether you know it or not but I have an identical bill - S-1175. They were both introduced at the same time and it seems that the Assembly bill moved forward. I said that to let you know that that is the reason for my being here today. I have a direct interest.

The usury limit in this State is 9 1/2%. We have discussed this at the Board meetings. I have several members of my Board here with me today. We issue Treasury Certificates - six month certificates - and we have to pay 10.29%, although the money that we lend out to the people has a max of 9 1/2%. How can we continue to do that?

If we want to borrow money from the Federal Home Loan Bank we have to pay over 10% for it. Again, the usury rate, of course, is limited to 9 1/2%.

If we want to borrow the money privately, we would probably have to spend something like 11%, 11 1/4%, or 11 1/2%.

Now, what we are asking is that we be permitted to do something to keep some money in the Savings institutions because they are going to go out - there is no question about it. We are experiencing this problem right now. We are not issuing any Treasury Certificates. We can't do it.

The differential - the 1/4% differential - which is a plus to the Savings and Loan people, is eliminated now, as I understand it, in the length accounts in the Savings Banks, and so forth.

Now, the idea is why should we go ahead and permit Savings and Loan institutions to have checking accounts? You know the question of the link accounts and the automatic transfer accounts in the banking institutions and everything else. We say we need this. We need it because the money is going to be drawn out. It is an avenue.

You will say that everything that I have said so far is not going to be eliminated. If you are going to pay more than 9 1/2% for your money, how is being able to have a checking account going to help? Of course, with that usury limit, something has to be done Federally or maybe here -- I don't know. It is just something that is going to aid us and not, as far as I can see, in any way detrimental to anyone else.

The home builders' leagues and you and I go around in our districts and try to find out what is going on. Everybody feels that it is a necessary thing to keep that vitality in the biggest industry as far as home dwelling mortgages are concerned. It is the Savings and Loan industry that gives the most money for that purpose.

Home builders, realtors, senior citizens-- Federal regulations permit it. The State Banking Department permits it. All of this is part of the reason, I think, for Assemblyman Codey's bill or my bill. We respectfully ask that it be given the consideration it deserves. I know you will do that.

I want to thank you for giving me these few minutes. Thank you very much.

SENATOR BEDELL: Thank you, Senator. Let me see if I can draw the position for you in which the Legislature finds itself. We have two opposing points of view, both from important segments of our economy in New Jersey. We have another third point of view, which is from the consumer - or John Q. Citizen. Naturally, it is the inclination of a Legislature, at any time, to try to deal with what it thinks is best for the majority of the people. But, the problem here is a little more

difficult than just that -- that kind of a resolve.

If we were to recognize the fact that there is a disparity between the services authorized by S & L's vis-a-vis the banks today and attempt to just judge that on its merits, we would decide in favor of the S & L's and that would be it.

The other side of the coin - if we decide in that manner - is, is that detrimental to the interest of the banking industry itself and does that have a ripple effect back on the economy and the consumer himself?

So, essentially, that is the dilemma in which the Legislature finds itself and that is the problem we are attempting to resolve. As I said in my opening statement, we are generally aware of what is involved in this particular issue. It is a very, very important issue. It is an important issue to both sides of the controversy and to the public at large.

Joe, we are cognizant of what your bill purports to do. The Committee has taken no predisposed position on this. We all have open minds. We have discussed it privately and I can assure everyone present that this Committee does have an open mind. We are going to consider the evidence that is brought forth today and try to come up with as rational and equitable decision as we can.

Thank you again, Senator, for being here.

SENATOR MARESSA: Thank you.

SENATOR BEDELL: I would like to call upon Mr. Thomas Sayles, Vice Chairman of the New Jersey Bankers' Association.

T H O M A S D. S A Y L E S: Mr. Chairman, Senator Gregario, good morning. I am Thomas D. Sayles, Jr., President of the Summit and Elizabeth Trust Company and Vice Chairman of the New Jersey Bankers Association. I do have a prepared statement which I will submit and I will therefore summarize some of the highlights of this prepared statement.

I would like to advise you that I am also speaking on behalf of New Jersey Bankers Chairman, Anthony Schoberl, who has attended these sessions very faithfully, relating to A-63, but who is unfortunately out of State today. I speak for him and our entire Commercial Bank community in New Jersey.

First and foremost, we are not against checking for Savings and Loan Associations and we are not afraid to compete, head to head, with the over 200 Savings and Loans. We find we are in a very competitive market and we feel, as we have said so many times in the past, that we would like to compete on a level playing ground. We are adamantly opposed to competing when they have discriminatory and unfair interest rate, tax, and reserve advantages.

Secondly, the S & L's have consistently talked about being people banks, whereas the Commercial Banks are business banks. We have studied this issue very closely and the statistics clearly prove that the Commercial Banks are just as much a people bank. We have considerably smaller average savings accounts - \$1,700 - than the S & L's, whose average is \$3,700. Clearly, that is not the little person with that kind of money.

Gordon Luce of the San Diego Federal Savings and Loan Association hit the nail on the head when he told S & L delegates at one of their recent meetings that the automatic transfer system is no threat. The S & L customer is sophisticated enough to know the bottom line and that is, the S & L's pay more savings - that 14% differential - than the Commercial Bank is allowed.

We, as commercial bankers, know exactly that Mr. Luce is telling the truth. Comments have been made that the S & L's are not doing well without checking.

I think statistics here again will prove that they have done very, very well. They are the fastest growing segment, I guess outside of the Credit Unions, in the State of New Jersey's financial community. Their two-year deposit growth was 66% greater than the Commercial Banks during this same two-year period -- hardly an industry that is suffering.

Thirdly, they claim that they give better customer service. Well, I am not sure how you define customer service, but if you include the 1/4 of 1% - or up to 1/2 of 1% - on certain CD's as their advantage, maybe that is better service. But, that is a Federal Regulation which they fought very strongly in this recent Congress to keep. Their own national leaders feared third-party transaction accounts because the addition of such power might clearly jeopardize their special interest rate advantage. They sued the Federal Reserve on that issue and lost. They know that the interest rate advantage has clearly made them the power that they are. And, they won and Reg. Q has been extended, as you know, for another two years.

We feel that our millions of savings customers have been deprived of this extra interest rate.

Again, we go back to the people aspect. They claim that they have served the people. Who makes the most student loans in the State of New Jersey? Commercial Banks. Mortgage loans -- we have written in the last year probably an equal number, if not more, of mortgage loans within the State of New Jersey -- and I emphasize that "within the State" because in many cases we found that some of the monies that are raised from savings deposits in the State are used to underwrite mortgages outside of the state.

We think, clearly, the name "people" for the thrifts does not hold water when analyzed closely.

There doesn't seem to be any mass exit of the savings customers from the S & L's. Clearly, the growth of savings over the last two years is an example of this. And, they haven't offered checking. Consequently, we are hard pressed to find out why the sudden necessity to have checking.

We think, finally, that the way A-63 is written would be extremely unfair and render an additional advantage to the S & L's. You have the power to potentially harm our industry, particularly the large number of small banks who are virtually identical in their makeup as an S & L. They are really very close to the thrifts, but they do not have the power of the thrifts.

In summary, we don't fear competition. We have done well. We are not complaining about the whole industry. The banks have survived and are doing well. But, we would like to compete on an even playing field, as we have said so many times, and we think that our position can be supported in many areas of what we have talked about.

There are many more people from the banking side, as you know from the calendar. We are going to speak on individual issues. Thank you very much.

SENATOR BEDELL: Thank you, sir. Are there any questions? (no questions)  
Mr. Edward Lawlor, President of the New Jersey Savings League.

EDMOND V. LAWLOR, JR.: Mr. Chairman, Senator Gregorio, my name is Edmond V. Lawlor, Jr. I am President of the New Jersey Savings League. The League is the trade association which represents both the State Chartered and Federally Chartered Savings and Loans of this State. We have prepared an extensive statement, which you have before you, containing a full explanation for the need for passage of this bill - A-63 - which gives Savings and Loans checking account authority.

Recognizing the constraints in the Committee's time, rather than read the entire statement, I am going to summarize it for you this morning. In doing so, however, I hope that I will in no way diminish in your minds the importance of the passage of this measure to the housing industry of this state and the 4 million people with accounts in Savings and Loan Associations.

Let me review with you now some of the basic factors which will make the reasons for passage of this legislation more compelling than ever. First of all, we have hard evidence that the 4 million people with accounts in Savings and Loan Associations want access to their money. This has been demonstrated by the fact that thousands upon thousands of people signed petitions requesting that they be granted this means of making withdrawals from their accounts in Savings and Loan Associations.

It is, of course, impossible to ask this question of the 4 million people currently holding accounts in Savings and Loans in New Jersey, but of the many thousands that were asked this question, no one replied in the negative.

I would like to point out to the Committee that the only depository institutions in the State of New Jersey that cannot offer its account holders this convenient means of withdrawal are the Savings and Loan Associations. At the present time, the Commercial Banks, the Savings Banks, and Credit Unions all offer this service and by one means or another are able to give account holders interest on these deposits.

New Jersey Federal Associations will soon be added to this list. We feel that people with accounts in Savings and Loan Associations are entitled to this service and as the facts in our complete statement which you have before you indicate, passage of this bill is very definitely in the interest of the public.

The second point that I would like to make to you this morning is that checking account powers will not diminish the mortgage lending activity of the Savings and Loan industry. Incidentally, it will not injure the Commercial Banking industry.

Our industry is dedicated to the financing of housing as a matter of tradition, experience, and extensive knowledge in this field of investment. In addition to that, the Internal Revenue Code is written so that Savings and Loan Associations will not stray from the residential mortgage lending field by requiring that we maintain 82% of our assets in qualifying residential mortgages. The fact that we do not have any desire to get into the Commercial Banking business was demonstrated by our ready acceptance of an amendment to this bill in the Assembly which restricted the accounts which may be opened under this measure to personal accounts and eliminated commercial accounts of any kind.

The nature of a financial institution is determined not by its liabilities but by its assets. As the chart in our statement shows, we presently maintain 85% of our assets in residential mortgages while Commercial Banks have only 23% of their assets in this type of investment. This is the main difference between Savings and Loans and Commercial Banks. There are, however, a great many other differences in the vast number of commercial investment powers which they have that Savings and Loan Associations do not have and do not want because of their dedication to the financing of residential properties. We will stay heavily invested in mortgages after we have transaction account capability.

We have brought with us today two people who are eminently qualified to speak to this point. One of them comes from New England where Savings and Loans have been issuing NOW accounts, or interest-bearing checking accounts for four years.

He will describe to you the lack of change in his institution since they began offering this service. The other is an officer of a Savings and Loan Association in New York where state chartered institutions have authority to issue checking accounts and have had this authority for more than two years. He too will elucidate on the lack of effect that the issuance of these accounts has had on his institution.

The next important point that I would like to bring to the attention of the Committee is that the neighboring States of Pennsylvania and New York now have checking account authority which will cause a serious drain on the deposits of New Jersey's Savings and Loan Associations unless they are able to offer their account holders a competitive service. Every day hundreds of thousands of New Jersey residents commute from South Jersey to Philadelphia and the surrounding area and from the northern counties into New York City. These people who just as conveniently can have their accounts in Pennsylvania and New York City, will surely transfer their funds if they are able to have the convenience of a checking account with the added benefit of being able to earn interest on their funds. The exact extent of this drain on the mortgage money supply of the State of New Jersey cannot be measured, but judging by what happened in the past when New York Savings Banks were able to offer a higher return on a smaller denomination accounts, New Jersey Savings and Loans will indeed experience a severe outflow of savings.

Another important area from which Savings and Loans are virtually excluded from because of their inability to offer direct access to their account holders is that of the direct deposit of recurring payments. This is an area that is just beginning to have a serious impact on the financial community and the initial results show that Savings and Loans will be virtually excluded from participating in any direct deposit payment program. This is illustrated by the fact that the Social Security checks which are directly deposited into the depository institution designated by the recipient have been going into Commercial Banks as compared with Savings and Loan Associations at the rate of 9 to 1. That is illustrated on page 5a of our exhibit IV. The General Accounting Office of the Federal Government has issued an order for all departments of the Federal Government to go on this direct deposit basis as soon as possible.

At the present time the entire Air Force payroll is on a direct deposit basis so that all members of this branch of the service may have their paychecks deposited directly in the depository institution of their choice. Private industry is following rapidly on the heels of the Federal Government and many large corporations are already on a direct deposit basis with their payrolls.

This system of payroll payment is a source of important cost savings to corporations because they are able to eliminate the expensive process of the preparation of individual paychecks. All of this direct deposit payroll processing is accomplished through an automated system involving magnetic tapes delivered to the receiving financial institution or through an automatic clearing house which will direct the deposit to the depository of the employee's choice. It is easy to see that most people would not accept a Savings and Loan Association as their depository because in order to make a withdrawal, they would have to present themselves in person with their passbook and with their withdrawal slip. Consequently, Savings and Loans are unable to effectively compete for these deposits and, therefore, they are being diverted out of the housing market.

We have included in our statement a chart showing the multiplier effect of funds invested in housing on the overall economy, which as you can see, is

very substantial. This is exhibit 3 on page 4a of the statement. This fact is readily recognized by the New Jersey Association of Home Builders and the New Jersey Association of Realtors, both of whom, gentlemen, have endorsed the passage of this legislation. Both the Trade Association for the Realtors and the Home Builders will present a statement today supporting passage of this legislation. They have taken this position - as their statements will indicate - because of the serious recent developments in the financial field which will have an effect on the Savings and Loan Associations' ability to deliver mortgage funds.

There are some recent events which have rapidly unfolded that make quick action on this measure of extreme importance to the continued success of the housing industry in New Jersey.

The first is the new Federal Reserve regulation, which was alluded to before, which went into effect on November 1st, authorizing automatic transfers from savings accounts to checking accounts. This regulation will allow all banks to encourage their depositors to deposit their total paycheck in the Commercial or Savings savings account and write checks which will be covered by funds automatically transferred to the checking account from that savings account. This, of course, is tantamount to interest on checking, a point which is made abundantly clear in their advertisements. There have already been indications that this type of account will have a devastating effect on Savings and Loan deposits and, therefore, on housing in this State.

We have a Savings and Loan manager here with us today who will testify as to his initial experience on the loss of deposits as a result of this regulation.

Incidentally, gentlemen, we have about 40 other chief executives here in the Senate Chamber today that are not going to testify. In the interest of saving time, they have submitted statements which are before you along with the other material.

Another recent development of great importance in connection with this automatic transfer service is that on October 31st, the suit challenging this regulation was rejected by the U. S. District Court. Our suit, incidentally, is not against Regulation Q. When I say "ours", we are not part of that suit. A suit was brought by the United States Savings and Loan League against the Federal Reserve, challenging the automatic transfer regulation and not Regulation Q.

All of the major banks in New Jersey and throughout the country are already issuing these accounts and from the wording of their advertisements, they are leaving no doubts in minds of the consumers that their very best depository arrangement today is to have their paycheck deposited in one of these accounts which will pay interest on all of their dollars which are not being utilized for bill paying and other purposes.

Our surveys show that 85% of the present New Jersey Savings and Loan Association account holders already have a checking account in a Commercial Bank. If they cannot get convenient access to their funds as provided in A-63, it will be a simple matter for them to transfer their savings deposits to an automatic transfer account in the Commercial Bank where they already have their checking account. They will not be able to resist the inducement of earning compound interest on every unused dollar of their paycheck.

I am certain that all of the members of the Committee have seen the extensive ads and television commercials that the Commercial banks are utilizing. I brought just two of them here today because I think they really illustrate the

point. The first one says the bank issues the earner account. "New Jersey never had checking like this. Now, the money you use for checking earns 5% interest in your savings account. Just put it all into a 5% automatic transfer savings account and when you write your check, your savings account will put the exact amount into your checking account automatically. So you will never have a penny more in your checking than you need."

The other one makes reference to the end of the day of lazy money, introducing the investment checking plan. "The perfect way to keep your money earning interest until your check clears the bank."

With 85% of the total assets invested in housing, the drain on Savings deposits is already beginning to cause a shortage of mortgage funds unlike any experience we have had in this State before. This would exceed what happened in 1966 and 1974. I am sure if you talk with the realtors and home builders, they can describe the tragedy of those times. The only way this can be prevented is for New Jersey's State Chartered Savings and Loan Associations to be given the authority to grant their account holders convenient access to their funds through passage of A-63.

Another very important recent development which makes passage of A-63 more urgent than ever before is the action of the Federal Home Loan Bank in its response to the automatic transfer system. The Federal Home Loan Bank Board issued regulations that will give all Federally Chartered Savings and Loan Associations in New Jersey the right to issue payment order accounts. This will enable account holders in Federal Associations - only the 22 Federal Associations - to send payment to creditors from a 5% interest bearing account just as the NOW account holders in New England have been doing for four years. Federal Home Loan Bank Board Chairman, Robert McKinney, said in announcing the issuance of the payment order account regulations for Federal Associations, "We must exercise our authority to insure that the housing finance industry remains safe and sound."

I can assure you, gentlemen, that if checking account authority, as provided in A-63, is not given to the remaining 153 State Chartered insured Savings and Loan Associations, which currently hold the bulk of the almost \$4 billion in residential mortgages made by New Jersey Savings and Loan Associations each year, than the safety and soundness in the State Associations will be in severe jeopardy.

The New Jersey Department of Banking and the New Jersey Senior Citizens Counsel is in favor of the passage of this measure. Comptroller of the Currency, John G. Heimann, has repeatedly said that thrift institutions should have this third party power and Bryce Curry, President of the Federal Home Loan Bank of New York - who was to be here today and whose representative will represent the bank - will have his representative tell you of the importance of equalizing the powers in the States of New Jersey and New York which are both in the Second Federal Home Loan Bank district. The New Jersey Association of Realtors and Home Builders, as I said before, is enthusiastically supporting passage of A-63.

Gentlemen, as a matter of fact, there is only one group of people opposed to the passage of A-63 and that is the New Jersey Bankers Association. The reason for their opposition is simple - they want to avoid competition in the checking account area and such competition is, of course, in the public interest.

In their effort to prevent Savings and Loan Associations from encroaching on what was for years their exclusive area of cost free money through checking accounts, they have deliberately deceived and misled the Legislature.

When the bill was considered in the Assembly, the Bankers Association argued that Savings and Loans were gouging the public by charging points on conventional mortgages when they knew perfectly well that points had not been charged on these loans since the passage of Chapter 54 of the Laws of 1968.

As required by legislative procedure, the entire power section of the Savings and Loan Act is set forth in the bill. This section included the outdated reference to the charging of points on conventional loans. The New Jersey Bankers Association took up a great deal of time arguing that the bill should be amended to change the powers section of the Savings and Loan Act to eliminate the reference to the charging of points on conventional loans which has not been utilized for ten years. Of course, we could not have cared less about that amendment except for the fact that it was a serious cause of delay of action on the measure. As a matter of fact, the measure was amended to take out that old provision in the statute. They made a great issue of the fact that Savings and Loans could charge interest on interest when actually this was done only on mortgages that were delinquent - less than 1% of the total loans that we hold.

Their strategy in fighting against passage of this bill was, and is, to do anything to delay action on it and confuse the members of the Legislature. The Assembly Banking and Insurance Committee saw through this device and ultimately, after amending the bill to make it apply only to personal accounts and changing the effective date to conform to the date of the banks' automatic transfer regulation, voted the bill out of Committee six to nothing.

The New Jersey Bankers Association has repeatedly tried to confuse the issue of taxation by talking about the State taxes only, when Savings and Loans in fact pay far more total taxes, both State and Federal, than the banks do, and our exhibits on page 7a and b point this out. They argue about reserves even though the bill has a specific reserve provision requiring reserves equal to those required of Savings Banks or higher if ordered by the Commissioner of Banking. They have raised a clamor about savings rate ceilings established by Regulation Q and the 1/4% differential, which can only be controlled by the Congress and therefore should not be part of the discussion of A-63. The savings rate differential is an instrument of national housing policy established by the Congress of the United States and is unrelated to the question of whether 4 million citizens of the State of New Jersey should have access to their funds in Savings and Loan Associations.

You, undoubtedly, have been receiving the same type of misleading information that was sent to the members of the Assembly containing vague references to out of date Congressional studies, that were rejected by the Congress many years ago, and other unrelated matters. We hope that our full statement and the accompanying charts and news clippings will set the record straight.

We respectfully urge the members of the Committee to consider the crippling effect these recent developments, which I have reviewed for you earlier, will have on the ability on the State's Savings and Loan Associations to continue to be the number one provider of home mortgage financing by reporting this bill out of committee for action on the floor as soon as possible. Thank you very much.

SENATOR BEDELL: Thank you, Mr. Lawlor.

Mr. Ray Bauer, President United Counties Trust Company.

R A Y B A U E R: Mr. Chairman, Senator Gregorio, thank you for this privilege of attending this public hearing. I think it is an important one. As Senator Bedell said, I am President and Chairman of United Counties Trust Company and I

have been a part of the New Jersey banking scene since the end of World War II. During this period of time, I have had an opportunity to observe the trend of competitive forces and the pattern of expanded privileges to Savings and Loan institutions and the thrift industry, without witnessing an equal giving up of any special privileges accorded to that industry.

It is my conviction that the pendulum has swung far in the interest of the thrift institutions at the expense of Commercial Banks -- Commercial Banks and their customers. And, now the Commercial Banks are the underprivileged and handicapped segment of our financial community.

My opposition to A-63 is because it is a peacemeal legislative effort. It represents further erosion to the balance of the competitive opportunities afforded to the financial community. If checking accounts are to be given the S & L industry, it should be when the interest differential is eliminated and reasonable equality of taxation and reserve administration is accomplished.

You have already heard from Mr. Sayles as to the position of the American Bankers Association, of the New Jersey Bankers Association, certainly of the United Counties Trust Company, and every bank I have talked to in the State of New Jersey, and that is that we have no objection to checking account powers for S & L's per se. But, standing alone without important parity provisions, A-63 cannot be good for the financial well-being of New Jersey, certainly it cannot be good for its 200 Commercial banks, nor the millions of customers that we are serving.

My remarks will relate primarily to the need to seek parity under Regulation Q before checking account powers are granted to the Savings and Loan industry. To understand the importance of the issue, one must understand the structure of Commercial Banks as they exist in the State of New Jersey, and what is actually happening in the financial marketplace.

First, let me give you a little profile of United Counties Trust Company. We are about a \$500 million institution; not small by some standards, but not large compared with the giants in the industry, certainly. We have 65% of our deposits in the savings and time category. Our ability to compete is very much related to the subject legislation, A-63, and special privileges which are being reserved to the thrift industry.

We have \$260 million of savings and time deposits as of September 30th. We have approximately \$180 millions of those dollars - or approximately 70% - committed to mortgages in the State of New Jersey and of those mortgages, 83% were for residential mortgages serving some 7,000 people -- if you will forgive the expression.

United Counties Trust Company's dependence on being able to compete in the savings market is typical of the Commercial Banking industry in New Jersey. Forty-Six percent of our New Jersey banks are less than \$50 million in size. And, all but one State Chartered bank in the State of New Jersey has more than 50% of its deposits in the savings category.

For the industry as a whole, State Banks of New Jersey have more than 60% of their deposits in that classification. And, for the small independent banks, serving the suburban and rural areas of our State that are under \$50 million in size - I made a sampling by just taking a list of alphabetized banks done by the Commissioner of Banking - more than 73%, or nearly 3/4 of their deposit total is in a savings category.

You might conclude from that statement that these figures show an ability of the Commercial Banks to presently compete, but let's look at the record. This

is a record compiled and established without the S & L's having checking account powers. In 1960, the Savings and Loan industry reported 35.3% of the savings market, with Commercial Banks having 46.2% of that market. Today, the S & L's have 40.1% of the market and the Commercial Banks 40.0%. In other words, they are in second place, even though as recently as 1960 the differential was very substantial.

More significant than that figure standing alone is what is the trend - what is the recent growth record - of the S & L's without checking account powers? Taking the total deposits combined - and this includes the savings of Commercial Banks as compared with the time and savings of S & L's - from 1974 through 1977 - that is not ancient history - Commercial Bank deposits grew 23%. During this same period of time, the S & L's grew 55%, or nearly 2 1/2 times the bank rate of growth. I think this is a partial answer to Mr. Lawlor's contention that the New York State banks have, for two years, enjoyed the privileges they are asking for and that there are going to be substantial transfers from the State of New Jersey to the State of New York, and it hasn't happened at all.

We are talking about percentages - that 55% is no longer on a insignificantly sized base because you are talking about an industry now, an S & L industry - in excess, last year, of \$15 billions of dollars. Now, this is the situation we face without adding checking account powers to the S & L's at this point. This will further distort what I consider the lack of competitive parity, which now exists already.

Now, who is hurting because of the Regulation Q differential? Basically, it is our contention that it is the little fellow, that group of little people that the S & L industry likes to talk about who are saving at Commercial Banks and who come to us and question us about why the differential is exclusively reserved to the S & L industry. The record shows, as Mr. Sayles mentioned, that the little man is saving at the Commercial Bank because the average savings account at an S & L is over 200% those reported by a Commercial Bank savings account.

There is no differential now for time deposits over \$100 thousand, between the industrys. Why continue to discriminate against the small saver in a Commercial Bank? The cost to that small saver, incidentally, is estimated to be \$30 millions of dollars last year in the State of New Jersey.

Your Commercial Banks have put \$6 1/2 billions of dollars into the New Jersey housing loan field. It has provided nearly 2/3rds of all the student loan dollars under the New Jersey Higher Educational Systems authority. It has provided some thirty times the dollars for New Jersey government financing in the State of New Jersey to benefit people. And, it provides the bulk of installment loans for home improvement, auto purchases, and consumer needs.

I suggest to this Committee, with all of the conviction at my command, that A-63 should not be approved because it is unfair; it is inequitable and destructive of a competitive balance which already tilts dangerously in favor of the thrift industry. Thank you very much.

SENATOR BEDELL: Thank you, Mr. Bauer.

I would like to mention that the Committee has been joined by another member, Senator James Wallwork of Essex County. He is the ranking minority member, not so much on this issue but on the basis of political party. Good to see you, Jim.

Mr. Phillip Messina, Senior Vice President and Treasurer of Columbian Savings and Loan Association, Woodbury, New York. Welcome to the Garden State, Mr. Messina.

P H I L L I P M E S S I N A: Mr. Chairman, Senators, it is Columbia Savings and Loan and that is Woodhaven, New York. You did get the name right. I am Phillip Messina and I am the Senior Vice President and Treasurer of Columbia Savings and Loan. We are a \$650 million New York State Chartered Savings and Loan with ten offices located in New York City and Long Island.

Perhaps some comparison of our size with other institutions in this State would be of some value. We are in the top five largest State Chartered Savings and Loans in the State. We are in the top 20 largest Savings and Loans, comparing State and Federal Chartered. As compared to our prime competition, which is the Mutual Savings Banks and, once removed, the Commercial institutions, our size is absolutely miniscule.

I have been asked to appear before you today by the New Jersey Savings League to relate Columbia's recent experience in the area of checking account services and our management's overview of the services as well.

Columbia's management has always considered itself to be most sensitive to the service needs of our customers and approximately four years ago, in May of 1974, following the New York State Banking Department's first issue of regulations permitting third party payment powers for State chartered thrift institutions, we concluded that those powers and that checking service - checking type service - would be, in fact, of great value to all of our existing customers.

Our decision to offer checking services at that time was also influenced by our defensive consideration that had we not made the service available, many of our customers might indeed be drawn to our competitors, namely the Mutual Savings Banks, which had at that time already begun to heavily advertise and market their intended offering.

One of the critical needs and one of the reasons why we were so concerned, in a defensive sense, was a need that impacts all financial intermediaries, that being to maintain a constant inflow of funds. Consumer disintermediation and fund outflows greatly diminish our ability to offer any of the services and in our case it would greatly diminish our ability to offer the one service that our industry was built around and that is home mortgage lending.

At the time the New York State Legislature first passed a bill authorizing checking accounts - and that was approximately two and one-half years ago, March of '76 - Columbia had savings account balances of approximately \$400 million. In September '78, approximately two and one-half years later, our savings balances grew to about \$550 million. That \$150 million savings growth over that period obviously was the result of many factors, the most significantly impacting, I think, being our having opened several branches. There is no doubt in my mind - I am certain, in fact - that our having offered checking services over that period was a real influence on the growth of savings that we experienced. Comparatively, over that same period, mortgage loans outstanding - in March of 1976 - were approximately \$340 million which, over two and one-half years, grew to approximately \$460 million in September of '78. The net number of Columbia-serviced mortgage loans grew from an outstanding total of 10,500 to a total of 11,000 mortgage loans in place. That insignificant change - that 500 increment - was the result of our having established, offered, closed - all those terms meaning the same thing - 2,500 mortgages through mortgage loans and having had satisfied 2,000 mortgage loans.

At present, Columbia services 15,200 checking accounts with average balances of approximately \$480, resulting in a combined balance of \$7,300,000.

We process approximately 6,000 checks each day through the regular clearance systems and we cash approximately 300 checks each day within our own offices. We also accept approximately 1,500 deposits each day to checking accounts. This activity level, compared to national, state averages at Mutual Savings Banks and Commercial Banks, is relatively low. I do think that it does, however, clearly demonstrate the use that our customers make of this service.

A recent survey by the New York Savings Association League indicates that approximately 112 out of 115 Mutual Savings Banks in the State are currently offering checking services, and out of 52 State Chartered Savings and Loan League members, 29 either offer or are planning to offer such a service.

In New York State the enabling authority in and of itself didn't create any overwhelming reformation of the financial community.

With regard to specific impact of thrift institutions offering checking account services upon Commercial Banks, it is my honest and personal opinion that if there is any impact at all, the Commercial Banks have benefitted. For many, many years Commercial Banks in New York have warned thrift institutions of the high cost associated with checking services and inferred in fact their delight at the prospect of transferring what they would have considered high-activity, low-balance, unprofitable checking accounts to thrift institutions. As well, as is probably the case with most thrifts offering services, the clearance and settlement necessary to support the service requires the establishment of a dependent relationship with a correspondent Commercial Bank.

In Columbia's case, that results in earned fees for our Commercial correspondent of approximately \$36,000 per year, along with their use of our daily average balances for clearances of approximately \$400,000. A recent Federal Reserve Bank survey of non-business, demand time and savings deposits in New York State, which results are certainly subject to interpretation, impressed me with the continuing growth trends for both thrifts and Commercial Banks. I honestly believe, again, that Commercial Banks in the New York market area have not been adversely affected in any way by the increase in competition for demand deposits.

Were I a member of the New Jersey Savings and Loan industry, I honestly would consider the passage of this checking account bill - A-63 - as most crucial for the continued and effective functioning of all Savings and Loans in the State. Thank you.

SENATOR BEDELL: Thank you, Mr. Messina. Could you advise us if the amendment that came out of the Assembly on this bill would limit it to personal accounts?

MR. MESSINA: Yes.

SENATOR BEDELL: Does New York have the same provision?

MR. MESSINA: Yes, sir. At the time, March of '76, the amendment restricted the offering by thrift institutions strictly to personal accounts, exclusive of business or any organizational accounts whatsoever.

SENATOR WALLWORK: Do you find people have more than one account in your Savings and Loan institution - one for checking and one for the regular savings?

MR. MESSINA: I would approximate that all of our 15,000 checking account customers indeed do have a savings account relationship with us.

SENATOR WALLWORK: They have two accounts? They have purely a savings account?

MR. MESSINA: No, they maintain both a savings and a checking account.

SENATOR WALLWORK: Why is that?

MR. MESSINA: Why is that, sir? I have to assume that they see a benefit in having both of those accounts available to them.

SENATOR WALLWORK: What is the difference in the interest rate?

MR. MESSINA: We are not permitted at this moment, under New York State statute, to offer interest on checking. Perhaps in the hope of clarifying the U. S. Congressional enactment, or addition of the State of New York to the New England region for the purposes of offering the so-called NOW account, I believe it has been recently approved. The Superintendent of Banks of New York State issued a statement. I have not yet seen that statement, but I believe it clarifies that the State Chartered institutions - State Chartered banks in New York - indeed may go along with that Federal authority.

SENATOR WALLWORK: Under Regulation Q?

MR. MESSINA: Regulation Q indeed does apply in New York State, as it does here. It is a Federal requirement. Commercial bankers, to the best of my knowledge, in New York State were as concerned as seems to be the case today with the Commercial bankers of New Jersey. Regulation Q is still applicable. The rate differential still applies. Again, quite honestly, over the last two and one-half to four years, I don't see any significant extreme disadvantage that the Commercial Banking industry has suffered.

SENATOR WALLWORK: But, under the changes down in Washington aren't you going to be able to give interest on your checking accounts?

MR. MESSINA: I am assuming, yes. Whether or not, in fact, Columbia as an individual institution will choose to do so, I honestly don't know. Our management and our board have not made any decisions nor reached any conclusions along that line. We are, indeed, exploring, researching, and giving it every consideration.

SENATOR WALLWORK: How do you make the transfer out of the savings account that is interest bearing into a checking account?

MR. MESSINA: At this moment - although again, if I am not mistaking, it was November 1st that that authority was made available in New York State and I believe we were able to take advantage of - we have not yet offered that particular automatic transfer service. At this moment, if one of our customers wishes to make such a transfer, they would have to specifically, individually, when they wished to transfer those funds, do so in a personal sense. They would physically be required to withdraw the funds from the savings account and add them to their checking account.

SENATOR GREGORIO: Mr. Messina, can you tell me if in the State of New York the Savings and Loans pay the same tax as the Commercial Banks?

MR. MESSINA: Quite honestly, I can't specifically answer with regard to state taxes, but I do believe that the comparison that was made here earlier applies as well in New York, that being that total taxes paid by Savings and Loan Institutions outshadow the total taxes paid by comparatively sized Commercial Banks.

SENATOR GREGORIO: Mr. Chairman, I wonder if someone would get that information for me? Thank you, Mr. Messina.

SENATOR BEDELL: Yes. Thank you, Mr. Messina.

Mr. David Holland, Senior Vice President, Leader Federal Savings & Loan, Lexington, Massachusetts. I hope I have that right.

D A V I D H O L L A N D: Good morning, Mr. Chairman, Senators, my name is David

Holland. I am Senior Vice President of Leader Federal Savings and Loan Association in Lexington, Massachusetts. Leader is a Mutual Federally Chartered Savings and Loan Association with assets of approximately \$180 million. We are located in seven communities in the suburbs, about 15 to 20 miles west and northwest of Boston.

Leader began to offer NOW accounts as a service to its customers just over four years ago, on September 30, 1974. Currently, NOW deposits approximate \$15 million in just under 12,000 personal accounts. We are also prohibited from offering any accounts to any commercial enterprises. We are restricted to non-profit organizations and to personal accounts.

This new service was integrated into the Association's operation with relative ease. Over 22% of the Association's savings growth since the implementation of the NOW accounts is directly attributable to such accounts. Analysis by our staff clearly indicates that NOW accounts have also generated a substantial amount of other types of savings accounts within our institution.

Although individual NOW account balances turn over more rapidly than traditional savings, they are not generally subject to disintermediation and, therefore, collectively represent a more stable form of average deposit, which has allowed the Association to allocate the vast majority of its NOW deposits to mortgage and other consumer-type loans.

Hence, NOW accounts not only have provided a service to the Association's depositors but also to its borrowers. Over 85% of our NOW account deposits are invested in loans. The remaining 15% is held for liquidity and invested in short-term obligations. This relationship translates into over \$11 million of loans which are currently outstanding and directly attributed to NOW accounts, which the Association was able to offer only through enabling NOW account legislation.

As of the close of business each December 31st, for the four years prior to our offering of NOW accounts, the Association's average loan portfolio to total assets was 87.9%. This percentage increased to 88.4% on the average for the four subsequent year ends.

NOW accounts have provided a tremendous stimulus to the thrift industry and, therefore, to the housing market in New England. Although NOW accounts have increased competition, I am not aware of any institution or type of institution which has been significantly disadvantaged. Based on available statistics and earnings reports, which I have read, it appears to me that the Commercial Banks in New England continue to thrive. Additionally, many of the Commercial Banks service various aspects of the NOW account operation, which I assume is priced to be profitable, while at the same time they have been able to insulate themselves from the day-to-day customer contact. In other words, certain Commercial Banks have, to an extent, become wholesalers while the thrifts are becoming the retailers.

It has been estimated that over 50% of the households in Massachusetts and New Hampshire have a NOW account. As of June 30, 1978, the Federal Reserve Bank of Boston published a report which indicates there are almost 2 million NOW accounts with balances in excess of \$3.2 billion in New England. Although Commercial Banks hold only 37% of the number of accounts, they hold about 63% of the dollars.

Although competition has increased, certainly, between institutions and types of institutions, I believe such competition has been healthy and certainly

beneficial to the consumer.

In summary, the authority to offer NOW accounts has provided the financial community an opportunity to better serve its depositors and borrowers. The consumer is the one who has really benefited.

Thank you, gentlemen, for this opportunity to express my thoughts on this important subject.

SENATOR BEDELL: Senator Wallwork.

SENATOR WALLWORK: The loans that you talk about that are in the NOW accounts, what type of loans are they again?

MR. HOLLAND: They would be a composite of primarily mortgage loans, but also education loans, home improvement loans, and savings account loans. We do not have the authority to--

SENATOR WALLWORK: What do you mean by a savings account loan?

MR. HOLLAND: Well, a loan on a passbook account, where an individual chooses, instead of withdrawing his balance, to take a loan against it.

SENATOR WALLWORK: And what percentage is that? Did you say 15%?

MR. HOLLAND: No, we maintain approximately 15% as liquid assets.

SENATOR WALLWORK: Yes.

MR. HOLLAND: The 85% is addressed in loans.

SENATOR WALLWORK: Eighty five percent of how many millions?

MR. HOLLAND: Well, we are a \$180 million institution.

SENATOR WALLWORK: That is not all in NOW accounts?

MR. HOLLAND: Right. It would be 85% of about \$13 million of the NOW account portfolio, which is about \$11 million currently that would be in loans. Eighty five percent of \$13 million would be \$11 million, which is addressed in loans.

SENATOR GREGORIO: Mr. Holland, can you tell me if in your state the Savings and Loans pay the same amount of tax to the state as the Commercial Banks do?

MR. HOLLAND: There are two different formulas. The Commercial Banks pay on an income basis. We pay on what is called a -- I can't think of the exact words, but it is really income before dividends. So, our rate is smaller. I don't know what the relationship is, though, on the actual tax dollars.

SENATOR GREGORIO: Could you estimate which one has the advantage? Is there an advantage, or couldn't you tell?

MR. HOLLAND: I couldn't really tell. Just to relate it to our own institution, we pay approximately about \$120 thousand per year in state taxes.

SENATOR GREGORIO: Well, the figure doesn't mean much. I am trying to come to a conclusion here and I can't seem to get an answer.

MR. HOLLAND: I understand what your question is and I am sorry I can't help you by making that comparison.

SENATOR GREGORIO: Thank you.

SENATOR WALLWORK: One other question. Are your NOW accounts interest bearing?

MR. HOLLAND: Yes, they are. We pay 5% interest on the balances maintained.

SENATOR WALLWORK: So, do you find that people have double accounts in your bank? In other words, do they have a checking account and a savings account?

MR. HOLLAND: Yes, very definitely so. The consumer still looks at their NOW account which just gives the advantage of paying interest. They tend to - and I think it is advisable - isolate those funds which they plan to pay their expenses from and those funds which they want to put away for a rainy day.

SENATOR WALLWORK: How do they make that transfer over?

MR. HOLLAND: Well, in our case there are really two choices. One is - as Mr. Messina described - to physically come and make the withdrawal and transfer the money over to the NOW. We also offer an additional service, which is a telephone transfer arrangement where, again, they have to take the initiative; it is not automatic. Through pre-arrangements they can call and make transfers between the NOW and the savings or vice versa.

SENATOR WALLWORK: So, they can write an overdraft and cover it?

MR. HOLLAND: That gets into a third category. We also provide overdraft protection, which is an effective form of a savings account loan, which I described, or mentioned, earlier, whereby if they overdraw their savings account and they--

SENATOR WALLWORK: Their checking savings.

MR. HOLLAND: I'm sorry. If they had overdrawn their NOW account, then they would create a loan against their savings account, if again they had made prearrangements to do so.

SENATOR WALLWORK: At what interest rate?

MR. HOLLAND: I believe it is one and one-half percent above the rate they are being paid on their regular savings account -- or on whatever savings account that they had pledged.

SENATOR WALLWORK: Thank you.

SENATOR BEDELL: Thank you, sir.

Mr. Fred Scholz, President, First National State Bank.

F R E D E R I C K J. S C H O L Z: Mr. Chairman, gentlemen of the Senate, it was just 15 years ago, about this time, that I had the privilege of being elected to the Jersey Senate. At that time they were misspelling my name.

SENATOR WALLWORK: They still are.

MR. SCHOLZ: They are still misspelling it. (laughter) It is S-C-H-O-L-Z, just for the record.

SENATOR WALLWORK: We know that. All the Republicans know that.

MR. SCHOLZ: And, obviously others, thank God.

I am Frederick J. Scholz. I am President of the First National State Bank - County, Tenafly, New Jersey. As a former Senator, I fully understand that you are being asked to resolve a very complex matter between two major lending industries. Both sides are armed with statistics, quotes, and justifications to cause you to support their position. You will have to weigh the credibility of the evidence and search your mind and conscience to determine what you will do.

I recall Professor Froman from the University of Minnesota who said that every political decision represents a distribution of advantages and disadvantages. The bill before you will put you in the position of deciding who will have advantages and who will have disadvantages. The decision will not be easy, I am sure. I recall being in similar situations in the Senate. However, many were not of the same magnitude or degree of importance as the issue before you. Some of these legislative problems involved bills dealing with thrift institutions. Often they dealt with programs which would bring some incursions by the thrift industry into general banking fields.

I supported most of the thrift bills, to the delight of my friends in that industry. The bottom line for me in most decisions, as a past Senator, was fairness. One of the great beliefs of our country is our belief in equality and

justice before the law. I have always felt that my ultimate decision in the Senate centered around the question, "Is my decision fair and just"? I have also always had concerns when I was asked to act in a manner that placed government in the affairs of business within our free enterprise system. I have and continue to believe that our country has prospered because we have had a strong and viable free enterprise system. While there are times when it is absolutely necessary for government to involve itself in private competitive business activity, I have felt, as a general rule, that it should not be government's function to intervene and act in a manner that uses governmental power to allow one business to have competitive advantage over another. However, it was not my, nor your, fault that our competitor has decided to put you in the position that you are in.

Speaking as a banker, I have spent many years serving people. One of the reasons I enjoyed serving in the Senate was that it gave me an opportunity to help people. Banking allows me to do the same thing. I can recall that some of my peers in the Legislature had a negative, stereotyped view of a banker as a heartless person concerned only with profit. Well, this is certainly not a truly descriptive profile and it also holds for our competitors, the Savings and Loan Association people -- our major competitors in New Jersey.

We pride ourselves at First National State Bank of Bergen County as trying to serve people and community, including thrift institutions, and we feel that we have done a good job.

Getting directly to the bill, I have judged it as a banker and as a former legislator. There is absolutely no question in my mind that the bill, as presently written, is unfair and violates the American principles of fair play and equality. The S & L's have interest rate, tax, and reserve preferences over us. Those preferences should be eliminated. They have made Savings & Loans the fastest growing deposit units in our State and have undoubtedly encouraged them to seek more types of banking powers. The main reason for their preferences, historically, was their involvement in housing and, yet, our Bergen County banks - including my own - have written more mortgages in Bergen than the Savings & Loans, who supposedly operate with their advantages due to their housing contributions. Their preferences are not fair to banks and to our customers who could possibly receive better benefits if we had the same advantages as the Savings & Loans.

Our request that the passage of the bill be contingent on interest, tax, and reserve equality is a proper and legitimate request. We feel that the enactment of A-63, contingent on these parity measures, is consistent with the American principle of fair play, equality, and justice. We appeal to you to hold to those principles as you consider whether or not one lending industry should be given an even more substantial competitive edge over another industry by legislative action. It is essential for New Jersey that the present situation not be allowed to get even further out of balance to the disadvantage of the millions of people who are served, directly and indirectly, by banks in New Jersey. I ask you members of the Senate, to please work toward a parity among financial institutions. Give us the opportunity to play the same game on the same sized field. Don't broaden disparity.

Thank you for giving me an opportunity to share my thoughts with you. I should be happy to respond to questions if you have any.

SENATOR GREGORIO: Mr. Scholz, you referred to the advantages of the

interest rate, the taxes, and the reserve. Would you explain the advantage they have in the reserve?

MR. SCHOLZ: Our reserves are controlled more by the Federal Reserve System. We get no money for it. We get no interest on our money that we maintain in that reserve account as cash. That is a very substantial amount of our total liquid position.

The Savings and Loan don't have the same disadvantage or protection for the customers, or depositors, that we have to provide, and should provide.

SENATOR GREGORIO: They don't have to provide a reserve?

MR. SCHOLZ: Pardon?

SENATOR GREGORIO: The Savings and Loans don't have to provide a reserve amount?

MR. SCHOLZ: Not to the same extent that banks do. I could get the figures. I don't have them here before me.

SENATOR GREGORIO: I would like to ask the Chairman, again, if we could have that specifically - what the difference is - so we can act in a manner of fairness.

MR. SCHOLZ: All right. If you want, I will supply that, sir.

SENATOR BEDELL: I would just like to ask a question. Again, if you don't know the specific answer, I am not trying to put you on a spot. I certainly don't want to misquote Mr. Lawlor, but it seems to me during his testimony he maintained that the Savings and Loan Associations already maintain the same reserves, or substantially the same reserves, as the banks and I don't know whether that is true or not. I am sure someone from the banking sector will answer that.

MR. SCHOLZ: I believe we have someone here who will talk about the equality position.

SENATOR BEDELL: Excellent. Thank you so much.

SENATOR WALLWORK: The interest accounts that the banks have now, statewide - the Commercial Banks - where does that interest account money generally end up in the economy? How do you invest that interest?

MR. SCHOLZ: In my own bank, which is roughly a \$250 million institution, about \$75 million of that is in mortgage loans and we are committed to make this year another \$6 million in mortgage loans - largely for residential, incidentally -- both listings. Other monies go into installment credit, which in our case would be roughly 10% of our deposit structure. Another 10% or 15% goes to what we call commercial loans, which would include loans against stock, passbooks, etc., and a great deal of money is invested in local municipalities for state and county government projects to help the economy and the needs of the municipalities and the government as a whole in those areas. The rest goes into U. S. Treasuries.

SENATOR WALLWORK: What percentage of the amount of money would go into a home mortgage loan?

MR. SCHOLZ: What percent of our money?

SENATOR WALLWORK: Or the Commercial Banks in general?

MR. SCHOLZ: I don't have all of them; I just have our own. I know that this year we have made over \$20 million in '78 alone. We made over \$20 million in residential loans.

SENATOR WALLWORK: Well, what percentage is that of your loan portfolio? Is it 20%?

MR. SCHOLZ: Oh, no. Well, \$75 million of our total loan portfolio is

more than half of it. The total mortgage loans are more than half of our total.

SENATOR WALLWORK: The point I am trying to get clear in my mind is that the Savings & Loan Associations basically have to have - what? - 83% or 84%, or something like that invested in home mortgages in order to get the tax advantages. If they don't do that, they get severe-- There is no requirement on Commercial Banks and I am trying to get the feel of, if there is a requirement for home mortgage money, what percentage of the Commercial Bank deposits would be going into home mortgages.

MR. SCHOLZ: No, Senator, there is no requirement; there is a ceiling for the non-insured loans.

SENATOR WALLWORK: Yes. I still don't understand your response. What percentage of your loans are going into home mortgages? Because those are the only ones that are regulated, right? If you are giving a mortgage to a business - a corporation or something - you can charge whatever interest rate, basically, you want to that is competitive.

MR. SCHOLZ: The current market, sure.

SENATOR WALLWORK: But, you can't necessarily do that with a home mortgage because you are restricted by law.

MR. SCHOLZ: If I understand you, Senator, 90% of our loans are on residential property - of our mortgage loans.

SENATOR WALLWORK: And what percentage of your interest account?

MR. SCHOLZ: Roughly, 50%.

SENATOR WALLWORK: One other question. As a past legislator and as a person in the Commercial Banking field, what do you think should be the case so far as Savings & Loan customers are concerned in having -- You know, they are sitting there without a checking capability, unless they go into another bank. Do you think that is something that we should continue in New Jersey, or do you think that the people that are in Savings and Loans should have some kind of a checking privilege?

MR. SCHOLZ: I don't see any particular disadvantage that people have when they go to a Savings and Loan as a savings bank. They go to the Savings and Loan because they are getting a little higher rate of interest than we can pay by law. It is not that we don't want to pay it. That is the limit.

The Banking Departments - and I am talking about the State and Federal Banking Departments as well - have restricted the growth of banks because they feel there are enough banks around. After all, we have just so many dollars, whether in drawer a, drawer b, or drawer c. The Banking Departments have to look at the ability of the institutions to make money and prove profitable so it doesn't cause a loss to their depositors. I see none in my experience. I see no disadvantage in Savings and Loan customers not having checking accounts because there are enough banks around, certainly, throughout New Jersey.

SENATOR WALLWORK: What interest rate does your bank pay on the savings accounts to a private customer?

MR. SCHOLZ: We have as high as 5 1/2% on preferred savings, which are limited savings. You can withdraw the money on an annual period, or on 90 day's written notice. The other runs from 4% to 5%. About 5% is our rate and the kind of account we try to get people into. In fact, we try to get many people to go into the 5 1/2% account because if the money is sitting there - I call it the honest account - I don't think there is any reason the average person

should be in a lesser rate day of deposit, day of withdrawal type account. You know, they put \$20 in and take \$10 out on Friday and then take \$10 out on Wednesday. It may be an active account, but that is all. But, the average person doesn't move his or her money around to that extent and there is no reason why they shouldn't be in the 5 1/2% account. We emphasize that - we place heavy emphasis on that - in our advertising and promotion all the way through and that is the section of our savings that is growing the fastest.

SENATOR WALLWORK: That is the time deposit. I mean the regular customer that comes and has a checking account and maybe keeps a savings account in your bank, what interest rate do they get by not putting it on a time deposit?

MR. SCHOLZ: They don't get anything on a demand deposit checking account.

SENATOR WALLWORK: No, I don't mean on the checking; I mean the savings.

MR. SCHOLZ: No. On the savings account rate they get the same as someone who doesn't have a checking account.

SENATOR WALLWORK: Is that 4 and 4 1/4?

MR. SCHOLZ: Four to five percent. Five percent is the highest.

SENATOR WALLWORK: The question I have in my mind is, does everybody get the same?

MR. SCHOLZ: Yes.

SENATOR WALLWORK: That has to be a specific then. Is it 4 1/2%, 4 3/4%, or 5%? The maximum you can give by law is 5%, what does your bank give?

MR. SCHOLZ: Our maximum is 5%. We have some offices that still pay 4%.

SENATOR WALLWORK: What percentage would that be? Eighty percent of the accounts?

MR. SCHOLZ: Oh, no, less than that. Less than that.

SENATOR WALLWORK: I am just trying to get an idea.

MR. SCHOLZ: I know. Under half, I am sure.

SENATOR WALLWORK: Thank you.

SENATOR GREGORIO: Senator Bedell just stepped out for a moment. I would like to call Victoria Leovin. Would you state who you represent, Victoria?

V I C T O R I A L E O V I N: I represent the Ocean County Senior Coordinating Council, sir. We have a membership of over 90,000. We are alert. We are vigorous. And, we are willing to fight for that which we believe in, sir.

SENATOR WALLWORK: You have money in the bank, right?

MS. LEOVIN: Yes, we do have - and a comforting feeling. (laughter)

SENATOR GREGORIO: You are not going to fight me. I surrender.

MS. LEOVIN: Oh, I would like a nice quiet tussle.

Gentlemen, my name is Victoria R. Leovin. Thank you, Mr. Chairman. Thank you, Senator Gregorio. I have a prepared speech I would like to present to you, please.

Of all the groups of Savings and Loan account holders who have been deprived of convenient access to their funds at Savings and Loan Associations, it is the senior citizen who has felt the effect of this inequity the very most. With the advent of the direct deposit of Federal recurring payments program in late 1975, retired persons learned that they would not be able to participate fully at their Savings and Loan Associations, since Associations were not authorized to permit convenient withdrawal by check to cover daily living expenses of older New Jerseyans. They found that the only sensible and convenient way to

participate in the direct deposit program would be to establish an account in a Commercial Bank or Savings Bank, both of which have long had checking account capability.

The Committee may properly ask why senior citizens of Ocean County as a group felt discriminated against and why they are supporting Assembly Bill No. A-63. The reasons can be boiled down to just one word, gentlemen - convenience. Many of the older residents of Ocean County find it increasingly difficult to transport themselves from their homes to their local financial institutions. That is one reason why the direct deposit program has been so effective in New Jersey and why Commercial Banks have been able to obtain the preponderance of such deposits. With a bank checking account combined with directly deposited monthly payments from the Federal Government, all an account holder has to do is to merely write checks for daily expenses in the comfort of his or her own home.

By contrast, gentlemen, in order for a person to effect similar payments from his account in a Savings and Loan Association, he must first leave his home and travel to one of the Association's offices. Second, he has to present his passbook with a withdrawal slip, in person, in order to withdraw the needed funds and, third, he has to transfer these funds into a money order, using the money order to pay daily expenses. The Committee can certainly readily see how the lack of checking authority in the Savings and Loan Association imposes an unfair and unnecessary burden on the older citizens of Ocean County, and indeed all of New Jersey, whose capability to utilize transportation is most severely limited.

The Ocean County seniors are particularly incensed over this inequity inasmuch as the very institutions which have helped them purchase a home, save for a home, a vacation, the education of their children, and which has provided them with a wide variety of savings plans during their lifetimes, are now prohibited by law from helping them when they need convenient access to their funds the most.

In many cases, older New Jerseyans are not physically able to continue to pay personal visits to the Associations that they have dealt with for years and they end up terminating these long-standing and mutually beneficial relationships. When they do this, in many cases they find that they have also lost the personal touch that they have so enjoyed through long-standing customer service dealings, unique only to Savings and Loan Associations throughout New Jersey.

Senior Citizens of Ocean County is a group who firmly believes that bill A-63 should not be further delayed by the Committee, but should be released and passed by the Senate in a most timely manner. To deprive the older citizen, the New Jerseyan, of the convenience of Savings and Loan checking accounts means continuing to deprive them of a small but important degree of comfort in their homes.

We respectfully urge the passage of this most important bill, A-63. This bill would be of great benefit not just for the convenience of citizens, but would be varied in its accomplishment to all persons. We ask for the elimination of discrimination in all categories.

May I thank you for your courtesy in permitting me to present this report and, as a closing remark, gentlemen, one thought: A wise man is not he who has recollections of the past, but he who has responsibilities to the future for everyone, equitably. I thank you, gentlemen.

SENATOR GREGORIO: Thank you very much.

SENATOR WALLWORK: One question before you leave, please?

MS. LEOVIN: Yes, sir.

SENATOR WALLWORK: In your last sentence in your prepared remarks you talked about discrimination in all categories. Would you read that over again, please, and amplify what you meant?

MS. LEOVIN: We ask for the elimination of discrimination in all categories -- I am speaking as seniors, not because we are seniors but because we have the good fortune to be seniors, sir. We have some experience and some wisdom, perhaps. Discrimination is a word that is extremely sensitive.

SENATOR WALLWORK: All right. You are talking about all categories, you are not talking in a banking context?

MS. LEOVIN: No, I am not. I am not a banker -- so unfortunate.  
(laughter) Thank you again, sir.

SENATOR GREGORIO: Thank you very much.

Mr. Harry Van Sciver, President of the First National Bank and Trust Company of Beverly-Edgewater Park.

H A R R Y V A N S C I V E R: Senator Gregorio, Senator Wallwork, I would like to appeal to your Committee to consider the question of A-63, not only in the light of all the financial and economic aspects - as you will - but also in the light of the principles of basic fairness. The banks of New Jersey have, for a long time, been required to accept competitive disadvantages at the hands of the Savings and Loan industry, based on the premise that the Savings and Loans were weaker institutions and in need of special protection and advantage in order to enable them to provide funds for the housing industry.

At one time that argument did have merit. Today, by objective analysis, Savings and Loans are major institutions. By their own admission, they are doing very well. They have \$15 billion in total assets. They have tremendous size and strength. They never tire of telling the public, or the members of the Legislature, that they have over four million customers - certainly a major factor. The largest of the Associations, which is already a billion dollar unit, has sponsored full-page advertisements in an attempt to influence public opinion on this very legislation.

Isn't it time to face up to the size and the strength of the Savings and Loan industry in our State and ask it to stand on its own as an independent force, without the special protections it has enjoyed and is now enjoying? Isn't it time that Savings and Loans be allowed to offer only the same interest rates that banks pay their customers? Isn't it time that they accept parity all along the line?

Some of the issues on parity, of course, involve Federal and not State regulation or statute. But, the Committee and the Legislature must look at the overall picture in order to make an accurate decision. The bid by the Savings and Loans to receive checking account authority is an effort on their part to gain the last major power to operate just as a Commercial Bank while still being able to avoid accepting parity in banking competition.

We would hope the Committee would decline to act on A-63 unless and until the Savings and Loans of New Jersey demonstrate in an affirmative and irrevocable way that they were willing to accept full parity in the banking industry. By parity, we don't mean parity in one area and inequality in another; we mean full parity across the board.

Savings and Loans in the past have sought to claim that they are in favor of parity by saying that they want parity and the right to offer all services, which have previously been reserved to Commercial Banks. That is not parity in today's environment; it is inequality. Nothing could be more unequal or inequitable than for Savings and Loans to offer services which historically have been in the bank's province, while still being able to obtain their special advantages.

The adoption of A-63 at this time would be a drastic step in the creation of just such further inequity. It is for this reason that we urge the Committee to consider not only the damage that would be done to the banks of our State, should A-63 pass, but also the extreme unfairness inherent in the creation of new advantages for S & L's in the face of the current environment.

I would certainly welcome any questions from you and I appreciate the opportunity to comment.

SENATOR BEDELL: Thank you very much, sir. Are there any questions?

SENATOR WALLWORK: Yes. What interest rate does your bank give on your savings deposits?

MR. VAN SCHIVER: Five percent.

SENATOR WALLWORK: To everybody?

MR. VAN SCHIVER: Yes, sir. That is on passbook accounts.

SENATOR WALLWORK: Do you think you are losing passbook interest accounts because competition gives 5 1/4%?

MR. VAN SCHIVER: Without question, certainly.

SENATOR WALLWORK: How would this type of legislation impair your bank, or the other Commercial Banks, from giving a better return on investment?

MR. VAN SCHIVER: It should reduce the share of deposits which our industry holds in the State. It is already being reduced in contrast to the growing share that the Savings and Loan industry has now, largely due to Regulation Q.

SENATOR WALLWORK: What percentage of the monies available to you are your savings deposits? I mean, how important are your--?

MR. VAN SCHIVER: Approximately 68% of our total deposits are in savings or time accounts.

SENATOR WALLWORK: Sixty eight percent? So, if you were to lose half of that, for instance, what do you estimate you would lose under this type of legislation?

MR. VAN SCHIVER: It is really very hard to estimate, but we would certainly lose a great number of individual customers who are quite important to us - long-term as well as short-term dollars.

SENATOR WALLWORK: And, how would that impair you then in making your business loans?

MR. VAN SCHIVER: It would impair our ability to lend the spectrum, from business to individuals. One of the particular problems that concerns me in this legislation is that it is going to take total deposits out of full spectrum banks. As the economic needs of the state and the nation determine, commercial bank funds currently are available to be diverted into residential construction -- into the business; into the creation of jobs. Once they have reached the Savings and Loan haven, they are dedicated to one basic industry - housing - and at some point in the future this can seriously affect the economic welfare of our State.

SENATOR GREGORIO: Mr. Van Sciver, we certainly - I am sure I am speaking for the Committee and, in fact, the entire Legislature - try to make our decisions on fairness. Even though this sounds like it would be more beneficial to the consumer, we don't want to do it at the expense of putting one type of banking industry at more of a disadvantage.

You have just received the automatic transfer privilege, I think.

MR. VAN SCIVER: That's correct.

SENATOR GREGORIO: Don't you think that the Savings and Loans, when you got that, could say that is an advantage - one more advantage - you have now that you didn't have before?

MR. VAN SCIVER: That's correct.

SENATOR GREGORIO: Do you think that the Commercial Banks would be less opposed to this legislation if the state tax were equalized?

MR. VAN SCIVER: Certainly.

SENATOR GREGORIO: If there was companion legislation, say, that the tax take of the State was the same?

MR. VAN SCIVER: Yes.

SENATOR GREGORIO: Do you think that would sort of balance things?

MR. VAN SCIVER: It would be a step in the direction of the parity I spoke of, yes.

SENATOR GREGORIO: Thank you very much.

SENATOR WALLWORK: What percentage of your deposits, or your money, goes into home mortgages?

MR. VAN SCIVER: In home mortgages we currently have approximately \$6 million of a total asset of \$40 million, total deposit of \$37 million. That is 16%.

SENATOR WALLWORK: Would you have any comment on the previous speaker's remarks about the older citizens and their ability - really, their lack of mobility in certain instances - as far as having the convenience of having a checking and a savings account?

MR. VAN SCIVER: Yes. It is most regrettable she doesn't live in our service area. This evening one of my chores will be a routine monthly one of making a call on a senior citizen who is 88 years old to take full care of her banking business for a month at her home.

SENATOR WALLWORK: Yes, but you can't do that for everyone.

MR. VAN SCIVER: We do it for many dozens of people each month. It is part of the full service concept that banking tries to employ.

SENATOR BEDELL: Thank you so much, Mr. Van Sciver.

The Committee would like to call upon Mr. John Kay, President of the Shrewsbury State Bank.

J O H N K A Y: Good morning, Mr. Chairman, Senators, my name is John Kay. I am President of the Shrewsbury State Bank in Monmouth County. I am one of the small bankers represented in the audience today. Our bank is a \$36 million bank and I might add that 46% of the banks in the State of New Jersey, of the 209 that are represented, are banks of under \$50 million, of which I am one.

Our profile is that we have approximately \$30 million in deposits, of which 2/3rds of those deposits are time deposits. We have approximately \$22 million in loans. Of those \$22 million in loans, 70% of them are mortgage loans. We are a full service bank. We offer the highest interest rate allowable to our savings

depositors. We feel that we, the small banks, are going to be the ones who will be the most hurt by this legislation.

I represent a group in the State of New Jersey called the Commercial Bankers Association. It is a group made up of some 40 small banks who are vehemently against this type of legislation. I am here today to speak to you relative to the protection afforded to the Savings and Loan industry -- the so-called mortgage lender.

Over the years, various provisions have been written into the law in an effort to give what at the time seemed to be necessary - special protections to the Savings and Loan industry. Almost the sole justification for these protections has been that Savings and Loans must be assured of the funds necessary to finance housing construction and home purchases. Without these funds, it was argued, the housing industry, both in our State and nationwide, would be gravely threatened.

In light of the general operating style of Savings and Loans today, however, that argument is certainly no longer valid. Savings and Loans today are already into the broad range of lending activities which once were considered to be out of their appropriate area of activity.

Savings and Loans will now offer you a wide variety of loans which have very little to do with housing. Under the blanket of the so-called Home Improvement Loans, they will lend you money today on a new car, a new boat, new wall-to-wall rugs for your home, or even a vacation in the Bahamas. Is that preserving money for use in meeting the needs of New Jersey's housing industry? We think it is not.

The rationalization used by Savings and Loans to support their home improvement loan programs has been that these loans are made on items which normally go with a home. No home is complete without these items, they will tell you. We are constrained to ask, is a boat an essential item for the home, or a vacation?

What has really happened, of course, is that Savings and Loans have gone into the consumer lending business - a fact which many of them today openly and proudly admit. Consumer lending is the business of banking. It is worth repeating that if Savings and Loans want to be banks and if they want to offer all of the things which banks may offer, including consumer loans and checking, they should be required to abide by the rules and regulations which government has formulated for banks.

This the Savings and Loans will not accept. They say they want parity, but to them parity is the right to offer all of the services which a bank might offer while not having to live up to the regulations which govern banks and also while having the continuing special advantage of being allowed to pay higher interest.

The situation, as you can see, is badly muddled. The passage of A-63 would muddle it only further. There is an extreme threat inherent in this legislation to the good health of our banks. It is still the banks of our State which must support our economy. They must have the capital available for the expansion of business, which in turn creates jobs. Without jobs there would be no homes. The statistical evidence that banks are losing money to Savings and Loans is clear. It is clear also that there is plenty of money available to the Savings and Loans of the State to meet New Jersey's housing industry needs. What is most needed for the economy of our State today is new jobs and that is accomplished by the commercial and industrial lending done by our

banks. We cannot afford to threaten the health of our banks any further by allowing this legislation to go forward.

If you have any questions relative to our sized institution, I would be only too happy to answer them.

SENATOR WALLWORK: You said 70% of your monies were in mortgages?

MR. KAY: That's right.

SENATOR WALLWORK: How many are in home mortgages and how many are in other types?

MR. KAY: 95% of them are in home mortgages.

SENATOR WALLWORK: And 5% of them then are in--

MR. KAY: In commercial mortgages.

SENATOR WALLWORK: How long has the Shrewsbury State Bank been chartered?

MR. KAY: It will be five years old in March.

SENATOR WALLWORK: Do you think there has been a proliferation of too many small banks throughout New Jersey under the rather easy charters?

MR. KAY: I think up until one year ago that was true. But, I think with this legislation you are going to have a further proliferation of small banks and I question whether --

SENATOR WALLWORK: Small Commercial Banks?

MR. KAY: Well, with granting checking powers to Savings and Loans, you are making them Commercial Banks. Furthermore, I question their expertise in handling such accounts. I have been in banking 30 years and you should see what happens involving check frauds. I don't think they have the capital base to withstand this type of loss. That is my opinion.

SENATOR WALLWORK: What do you mean by loss?

MR. KAY: Losses in check frauds that are perpetrated throughout this State on a daily basis.

SENATOR WALLWORK: And how is that done?

MR. KAY: How is that done?

SENATOR WALLWORK: How do the banks lose out on that?

MR. KAY: Well, through cashing fraudulent checks.

I think there is just one more thing that should be considered in the passage of this type of legislation.

SENATOR WALLWORK: And what is that?

MR. KAY: The expertise in handling this type of an account.

SENATOR BEDELL: Mr. Kay, I want to thank you. If the battleground hasn't been established up to this point, you have made the parameters very, very visible. Thank you very much.

William J. Biunno, Chairman, New Jersey Savings League; President of Colonial Savings and Loan, Roselle Park, New Jersey.

W I L L I A M J. B I U N N O: Mr. Chairman and Members of the Labor, Industry and Professions Committee, my name is William J. Biunno and I am President of Colonial Savings and Loan Association, a \$193 million institution with offices in Union and Middlesex Counties and an approved, but yet unopened, office in Mercer County.

Additionally, I am Chairman of the Board of Governors of the New Jersey Savings League, the trade association for 211 Savings and Loans in New Jersey. I am happy to have the opportunity to present my statement in support of A-63 to your Committee today.

My testimony will be brief and will cover three basic reasons why we need the legal authority for transaction accounts in New Jersey's Savings and Loans: First, consumer access to savings accounts in Savings and Loans; secondly, competitive parity; and, third, housing needs in New Jersey.

Consumers in New Jersey who have accounts in Savings and Loan Associations are being short-changed because they do not have easy access to the funds on deposit with Savings and Loans. In order for a saver to make a withdrawal from his savings, he must execute a withdrawal slip, take it into one of the offices of the Savings and Loan where he is a depositor and wait in line to be taken care of by a teller.

Although access to savings accounts in Savings and Loans has been handled for years in this fashion, today its reality is questionable. A large number of savers in Savings and Loans are people who have very active accounts.

During 1977, Colonial Savings processed 137 million dollars in savings transactions, of which 55.6 million dollars were withdrawals. Many of these people are employed full time and it is difficult for them to go to our offices during working hours in order to transact their business. This is even true with expanded weekday hours and Saturday banking.

Some of these folks are golden agers, who are relying on social security as a basic means of support. The U. S. Treasury, in 1975, provided a means of direct deposit of an individual's social security check into his or her savings account without making it necessary for the recipient to have to worry about thefts of mailboxes, misdirected mails, or the inability to deposit checks because of illness or inclement weather.

The means of getting the recurring payment into the account has been simplified. The problem for that same customer is access to these funds in his account. Without checking the customer still has to worry about mail, inclement weather, and illness. These same problems face every other savings and loan customer, regardless of his age or his state of health, especially with the popularity of direct deposit of payroll checks, etc.

Did you know that every other type of financial institution in New Jersey has the authority to issue checking accounts in one form or another? Commercial and Savings Banks have had this authority for years and now credit unions, through their authority to issue share drafts, have checking authority too. Well, why not Savings and Loans in New Jersey?

Did you know that all financial institutions in the State of New York now have checking authority? Savings and Loans too. Did you know that all State Chartered Savings and Loans, as well as Commercial and Savings Banks, in Pennsylvania now have checking authority?

You surely know that many New Jersey residents travel to New York City and to the Philadelphia area for employment and it must follow that funds will flow out of New Jersey's Savings and Loans into Savings and Loans in New York City and Philadelphia as a result of this easy access.

Also, on November 1, 1978, an order of the Federal Reserve Board and the FDIC was considered by the Savings and Loan industry to be an action which circumvents authority granted to legislative bodies only. And I repeat, the reason for the suit was not, as some of the Commercial bankers have indicated, the question of Reg Q; the reason for the suit was that it was considered by the Savings and Loan industry to be an action which circumvented the authority granted to legislative bodies only -- the United States Congress. This means that a customer of a

Commercial or Savings Bank may keep minimal balances in his checking account, write checks in excess of his balance, and at the last possible moment transfers will be made from his savings account to his checking account automatically to cover those checks as they clear.

This is being sold by Commercial Banks as interest on checking. The Savings and Loan industry believes that this will create further erosion of savings from Savings and Loans and even with demand deposit capability for Savings and Loans, Commercial and Savings Banks will still have this competitive edge.

Also, as you may have read, as recently as last week the Chairman of the Federal Home Loan Bank and the Federal Home Loan Bank Board has authorized the payment order account for Federal Savings and Loans throughout the nation, including New Jersey. This still leaves the State Chartered Savings and Loans without any type of demand deposit authority.

As you know, the Congress just recently passed the Financial Institutions Regulatory Act, which included the extension of Regulation Q authority for two years, to December 15, 1980. Within this legislation are two key issues you should be aware of. First, the Commercial Banking lobby was successful in further eroding the differential in rates by the elimination of the one-quarter of one percent differential on length accounts - this is automatic transfer and NOW accounts.

This is what the Commercial bankers in New Jersey have been complaining about ever since A-63 first came up in the Assembly. Well, the Commercial bankers have gotten their wish. How about ours -- demand deposit authority for Savings and Loans; access by customers to their savings?

Secondly, the Star Ledger reported in its October 20th edition: After some intensive lobbying in Washington by Anthony DeShogril, a Somerset banker, and Robert C. Forey, Chairman and President, respectively, of the New Jersey Bankers Association, the New Jersey section of the bill which would give NOW authority to banks and Savings and Loans in New Jersey and New York was dropped from the package. Although it will undoubtedly take some time before the New Jersey Bankers Association realizes it gave up something that their membership would have used for the sake of their customers, I am sure they feel they have won an important victory. While the leadership of the New Jersey Bankers Association is roaming the halls of the Senate trying to stop or stall A-63, the marketing and electronic data processing people in their banks are calling on the Savings and Loan industry asking for an opportunity to process our demand deposit accounts when we get the authority.

If this legislation is not released from the Labor, Industry, and Professions Committee, and if it is not approved on the floor of the Senate and signed into law by Governor Byrne, consumers in New Jersey will be seriously affected. Without customer access to their funds in Savings and Loans, savings could flow out to length accounts in Commercial Banks with serious repercussions on the housing industry in New Jersey.

Savings and Loan Associations grant more mortgage loans on one to four family homes than all other financial institutions combined. Can you think of the effects of the erosion of our savings flows on the housing market in this State? I can.

Mr. Chairman, the question of transaction accounts has been kicking around the halls of the New Jersey Legislature long enough. I commend the

Committee's recommendation to hold this public hearing. I implore you to weigh the testimony carefully and release this bill at you next meeting for an early vote on the floor of the Senate. Thank you.

SENATOR WALLWORK: What percentage, statewide, do the Savings and Loans have invested in New Jersey for mortgages, as opposed to out-of-state mortgages?

MR. BIUNNO: Eighty five percent I believe is the number.

SENATOR WALLWORK: What is your cut-off? It is 83 or 84?

MR. BIUNNO: No, the Internal Revenue Code provides that 84% of our assets must be in mortgage loans - period.

SENATOR WALLWORK: Home mortgage loans?

MR. BIUNNO: Yes.

SENATOR WALLWORK: So, 85%, or above 84%, would be in New Jersey; 15% would be--

MR. BIUNNO: On an industry average in New Jersey, that is, I believe, the correct amount.

SENATOR BEDELL: With regard to the comment on the payment order accounts that the Federal Government is talking about for the chartered banks--

MR. BIUNNO: For Federals?

SENATOR BEDELL: (continuing) is that now in effect?

MR. BIUNNO: No. The regulations are being prepared by the Federal Home Loan Bank Board. There will be, I believe, a 30 day period for questions and review and at that time the regulation will become effective for the Federals.

SENATOR BEDELL: What is the expected implementation date after the review period is over?

MR. BIUNNO: Immediately after the review period is over, I believe is the implementation date.

SENATOR BEDELL: Is that around January 1st?

MR. BIUNNO: No, it would be before.

SENATOR GREGORIO: How many Federal S & L's are there?

MR. BIUNNO: Twenty two in New Jersey.

SENATOR GREGORIO: That would put you at a distinct disadvantage if the Federal banks have it.

MR. BIUNNO: Yes, we feel that way too.

If I may, the question has been raised about Regulation Q. and I would like to give a little history of Reg Q for the benefit of those who have not studied this subject.

The savings accounts are virtually the only way Savings and Loan Associations can obtain the funds they need to maintain their portfolio mortgages. Commercial Banks, on the other hand, are structured so that they may raise capital through sale of stock, by providing checking and savings services to corporations and individuals, and other methods of corporate financing.

So, in order to make certain money available for residential home financing, Federal Reserve Board Regulation Q was implemented in 1976 to permit Savings Banks and Savings and Loan Associations to pay what was at that time a 1% differential in the interest rates they were allowed to pay their account holders.

Commercial bankers in this country gradually chipped away at the 1% differential so that today it is only one quarter of one percent on all but one type of savings account and that has been eliminated entirely on retirement accounts and accounts which are part of the automatic savings, checking transfer system. So, I think the history of Regulation Q and the reason it was initially

adopted is important to this Committee in its deliberations on the comments of both the Savings and Loans and the Commercial Banks.

One last point I would like to make is that I heard continuous reference this morning to the question of institutional fairness. The Savings and Loans in the State of New Jersey feel that we are for fairness to our customers, which is more important, we feel, than talking about institutional fairness. It is the people's ability to manage their money that is important to us. Thank you.

SENATOR BEDELL: Thank you, sir.

I was going to call upon Bryce Curry who is the President of the Federal Home Loan Bank of New York but I understand he has a surrogate here today. Would you please state who you are for the record?

BRYAN DITTENHAFFER: Mr. Chairman, members of the Committee, I am Bryan Dittenhafer. I am Vice President and Chief Economist of the Federal Home Loan Bank of New York. I am here representing Bryce Curry, who could not be here today because of other engagements.

Perhaps before I begin the prepared testimony, gentlemen, I might answer a question which has been raised by the Committee on the payment order of accounts, which have recently been authorized for Federal Associations. The Chairman of the Federal Home Loan Bank Board, Mr. McKinney - Robert H. McKinney - has proposed regulatory amendments which would allow account holders of Federal Associations to authorize payment to third parties through a new category of account - the Payment Order Account - that is subject to withdrawal by non-negotiable, non-transferable order. This regulation would go into effect twenty days following its appearance in the Federal Register. That was scheduled to appear during the week of November 6th.

The non-negotiable order withdrawal would be available to account holders of Federal institutions in the State of New Jersey at that time.

The legislation, which is the subject of these hearings - Assembly Bill No. 63 - is of concern to the Federal Home Loan Bank of New York and I wish to thank you for the opportunity to present our viewpoint on this legislation.

The Federal Home Loan Bank system was designed to promote home ownership through the extension of credit to Savings and Home Financing institutions and we are vitally concerned with both the commitment of mortgage funds to finance housing and the strength and safety of the thrift institutions who are our members.

With your permission, I would like to address the issues which, from our viewpoint, are most important in considering A-63. First, we believe that third party payment powers for Savings and Loans would provide consumers with a major new convenience: The ability to deposit money, subject to checking, at more than 500 new locations in the State. Many consumers already purchase money orders to pay bills by making savings account withdrawals and checking accounts at Savings and Loans would obviously eliminate this need to visit the institution for this purpose.

I also support the provision to allow negotiable order withdrawal as soon as Federally Chartered Associations are permitted to have this authority, since such accounts would allow consumers to receive interest on transactions of balances and precautionary balances in a single account. Ideally, consumers would maintain checking account balances just sufficient to cover normal transaction needs, keeping any excess funds in interest-bearing time accounts. Of course, heavy advertising by Commercial Banks on this very point has encouraged

consumers to manage their checking and savings account balances in exactly this way. And, of course, also the newly-granted authority to offer automatic transfers has made it more convenient to do this at Commercial Banks.

On the issue of electronic funds transfers, increasingly consumers are having funds directly deposited into financial institutions and, of course, State Chartered Savings and Loans do not have the authority to offer third-party payments on what are essentially transactions funds. This puts them at a great competitive disadvantage and is a significant consideration in this legislation.

I believe third-party payments accounts for S & L's would also benefit the consumer by increasing competition in those areas where S & L's provide the only competition to Commercial Banks and that this increased competition would provide the consumers with better lower-cost financial services throughout the State.

Some have advanced the argument that competition between institutions is a reason for not granting Savings and Loan Associations the third-party payment account. It is argued that these supposedly higher-cost accounts would lead to an increase in mortgage rates, for example, or to a reduction in the proportion of assets which Associations would devote to mortgages. Either of these two eventualities would naturally be of concern to the Federal Home Loan Bank of New York.

Based on the evidence that I have reviewed, I do not believe that granting checking account powers to S & L's will reduce the flow of funds into mortgages, nor do I believe it will raise the cost of money to consumers. This is based upon studies which have been conducted by a staff of the Federal Home Loan Bank Board. I can talk about those in more detail if you wish.

As a matter of fact, I believe that checking account powers are likely to increase the availability of mortgage funds at New Jersey institutions through an increase in total deposits at the Savings and Loans. In addition, the studies find evidence that Savings and Loans offering third-party payments accounts in other areas of the country have reduced the revenues they receive per mortgage during the period which has been studied in order to attract more borrowers for these funds.

A point was mentioned earlier, and I believe it was very important - particularly in the viewpoint of the Federal Home Loan Bank of New York. I am convinced that checking account powers would help stabilize the flow of funds to home financing in periods of rising interest rates, such as we are currently experiencing. Although checking account deposits are volatile within their single accounts, in the aggregate they are fairly stable. They differ from most other Savings and Loan deposits in that the volume of funds on deposit vary with consumer income and their transactions and they are not particularly sensitive to rates of interest on other open market instruments.

Thrift institutions savings deposits are very sensitive to rising open market interest rates and in the past when market interest rates have risen above those being offered by Associations under Reg. Q, net deposit outflows have occurred. This problem has been approached to some extent by the new money market certificates, but this still, in my belief, is an unsolved problem. A base of demand deposits relatively insensitive to interest rate movements would provide some stability to the overall deposit picture for S & L's.

As of November 1st, NOW accounts will be available to all institutions

in the State of New York. The new authority granted Commercial Banks on November 1st to automatically transfer consumer funds from savings to checking accounts, it seems to me, makes it imperative that State Chartered S & L's in New Jersey be granted third-party payment powers to protect their competitive position, vis-a-vis Commercial Banks, and to maintain a growing deposit base to provide money for residential financing.

Consumers seem to be most influenced by price and convenience when selecting a financial institution. Commercial Banks can now offer consumers a service which, in effect, allows interest to be paid on transactions balances until they actually leave the account. For many consumers this advantage and the convenience of one-location banking would outweigh the one-quarter point deposit interest rate differential currently in our thrift institutions under Regulation Q.

Historically, S & L's have carried a much larger proportion of their assets in residential mortgages than have Commercial Banks. At year end, 1977, New Jersey FDIC insured Commercial Banks carried 23% of their assets in real estate loans of all types, while S & L's carried 84.7% of assets in residential mortgages at the same point in time. These ratios have remained relatively stable over the years and the disparity between the two types of financial institutions in the assets carried in residential mortgages is so great that small movements in these ratios would not materially change the conclusion that Associations in New Jersey must remain competitive with Commercial Banks if the supply of funds for residential construction is to remain adequate.

As I am sure you gentlemen are aware, most of New Jersey is bombarded daily with advertising from out of state institutions of all types. We are sandwiched between the major metropolitan areas of New York and Philadelphia and a substantial portion of our labor force does commute to those cities daily, where there is heavy competition for New Jersey deposits from NOW accounts and other interest-bearing checking accounts from out of state institutions.

The powers granted to New Jersey S & L's by A-63 would reduce the competitive imbalance created by the new Commercial Bank Authority and NOW accounts in New York State and help provide a useful service to consumers in this State.

In summary, gentlemen, the Federal Home Loan Bank of New York supports A-63 and the granting to New Jersey S & L's of third party payment powers, including interest-bearing accounts, should that become available to Federally Chartered institutions. We believe this will have significant benefits to the consumer and that it is necessary to maintain a competitive environment in New Jersey.

Thank you for allowing me to present my views on this subject and those of the Federal Home Loan Bank of New York.

SENATOR WALLWORK: Have you done any studies as to what would be the flow of deposits out of Commercial Banks into Savings and Loans under this type of legislation?

MR. DITTENHAFFER: We have not attempted to simulate that but the historical environment is in the New England area, and that is that the flow of funds is minimal. The Commercial Banks have more at risk, obviously, and Savings Banks have more at risk since they already offer demand accounts and Savings and Loans do not. But, the flow has not been substantial.

In New York State, where the State Chartered Institutions have had checking account authority, the proportion of deposits held in Savings and Loan

Associations, who have the power, is less than 1% of their total assets and there has not been a substantial flow away from Commercial Banks or other financial institutions who can offer third-party payments.

SENATOR WALLWORK: Over the last five to ten years there has been an increase in savings funds going into the Savings and Loans and a decrease in the Commercial Banks here in New Jersey. Has that been true in other states?

MR. DITTENHAFFER: Yes, the Savings and Loans have been the fastest growing with the exception of credit unions.

SENATOR WALLWORK: Why is this occurring?

MR. DITTENHAFFER: In my judgment, it is at least partially attributable to the convenience of location of the Savings and Loan Associations. Branching has been relatively easy for Savings and Loans, providing a convenient location to the consumer. Other than that, I don't really have a study of this matter you referred to and I don't have a good comment.

SENATOR WALLWORK: You don't think it is the differential in interest?

MR. DITTENHAFFER: Well, obviously the differential in interest helps the Savings and Loans to compete because it does offer the saver a small additional interest advantage. The factors which are influencing consumer choice of a depository institution are convenience of location and the price of the service. And, the price of the service in this case includes the interest rate paid on the savings accounts. Those two factors have obviously helped the growth of the industry.

SENATOR BEDELL: Thank you so much.

Mr. Pierce Baugh, Director of Marketing, Advertising & Public Relations, New Jersey Bank, N.A., Clifton, New Jersey.

P I E R C E B A U G H: Thank you, Mr. Chairman. I appreciate the opportunity of speaking with you today.

I am with New Jersey Bank, West Paterson. We have 40 offices throughout the northern six counties in New Jersey.

I would like to address myself at this hearing to a corollary to the subject we are here to discuss. Very pertinent to this whole subject is that if the Savings and Loans were to be given checking account authority, they would in effect have all the same relevant powers as a Commercial Bank, but they would not have all the same obligations. One of the major differences in those obligations is in the area of tax liabilities to the State of New Jersey by both Savings and Loans and banks.

Last year, that amounted to Savings and Loans paying to the State less than \$2 million in taxes while the bank tax payments to New Jersey were \$30.8 million. The Savings and Loans, of course, do pay Federal taxes and it comes out about equal on the taxes they pay, both to the State and to the Federal Governments as that paid by banks.

But, in the case of Savings and Loans, the bulk of their tax payments go to the Federal Government, not the State. So, the question is, therefore, if the S & L's want checking account authority from the State, then why shouldn't they be required to pay a commensurate amount in taxes to the State as that paid by banks?

We have offered, in our quest for parity with Savings and Loans, to join with them in seeking a legislative balance to this entire tax question. They have firmly declined any move that would achieve that change, so we can only assess the present situation as one in which they feel most comfortable.

So, while they enjoy a favored tax status under State law, they are, at the same time, paying out sizeable funds to the Federal Government that could be coming into the State.

We don't think that it is fair to the people of New Jersey. It isn't particularly fair when you consider that those Federal tax dollars paid by Savings and Loans are part of the total national tax package in which the sun belt states share to a much greater extent than does New Jersey.

It is those same sun belt states that have additionally benefitted by attracting companies and jobs away from the State to the detriment of our entire state economy.

Savings and Loans have tried to minimize this argument about parity on State taxes. We most certainly feel it is pertinent to this entire question of checking account authority. The need for additional tax revenues in New Jersey has been stressed by our elected officials who have pointed clearly to a shortfall in that area, both now and in the future.

That certainly, we feel, begs the question that the granting of added powers to Savings and Loans cannot be separated from their favored tax status; the two go together. If an industry wants its rules changed so that it can operate in a manner not previously intended, then it most emphatically should be willing to be required to upgrade and meet its full tax obligations to the governmental sources that are asking for such added authority. Thank you.

SENATOR WALLWORK: Can you give us an idea of what the gross profits are for Commercial Banks, vis-a-vis Savings and Loans?

MR. BAUGH: No, sir, I cannot.

SENATOR WALLWORK: A two million tax liability versus thirty million doesn't mean anything unless we are looking at gross profits, or why the differential?

MR. BAUGH: The differential, of course, is by law. I have no idea what the gross profits would be, vis-a-vis the Savings and Loans, other than the fact that the Savings and Loans have been growing at a faster rate than the Commercial Banks have, both in deposits and I believe also in profits.

SENATOR WALLWORK: Well, could the Commercial Banks and the Savings and Loans and the other people in the financial institutions get together to come up with State legislation that would in effect modify the amount of Federal tax dollars that are flowing to the Federal government, so that more would flow to the State and less to the Federal government without, in effect, increasing the overall taxes?

It is simple to say you are going to pay more state tax, but if they are going to continue to pay a high Federal tax, the money is coming from somewhere. Is there a way that that can be done to, in other words, modify the laws so that less money goes to the Federal government and more stays in the State?

MR. BAUGH: I believe so.

SENATOR WALLWORK: Because that would be something. Without Federal legislation, could it be done with State legislation?

(no response)

You see, the information, as I understand it - and I may be wrong - in talking with opponents and proponents of A-63 is, the Savings and Loan people have basically said, "Well, when you add up the Federal and State taxes that we pay, we pay as much as the Commercial Banks are paying when you add their Federal and State taxes." Now, I don't know, of course, what the overall assets

of the Commercial Banks are versus the Savings and Loans. If they are equal in assets, or they are equal in gross profit, then we can take a look and we can compare total dollars that they are paying. But, if you say, "Well, the tax liability by the Savings and Loans is \$2 million and it is \$30 million, roughly, in the State for the Commercial Banks, that doesn't give me a measuring stick because I really don't know what the gross profits are for the Savings and Loans versus the Commercial Banks. If you tell me they are equal that is one thing. But, if you tell me one is one-fifteenth of the other, why then the \$2 and \$30 million sort of check out?

MR. BAUGH: I am not sure, but I believe that in 1977 the net income of Commercial Banks was two hundred and five -- these are net figures.

SENATOR WALLWORK: Two hundred and five million?

MR. BAUGH: Two hundred and five million, as opposed to one hundred and eleven million for Savings and Loans. They are '77 figures.

SENATOR WALLWORK: One hundred and eleven versus two hundred and five, but that is net.

MR. BAUGH: That is net income, yes.

SENATOR WALLWORK: That is after taxes.

MR. BAUGH: Yes, the net before is twelve point four six and one point two two for Savings and Loans.

SENATOR WALLWORK: I missed that.

MR. BAUGH: As a percentage of net before taxes, the Commercial Banks are twelve point four six.

SENATOR WALLWORK: They are twelve point four six percent of profit?

MR. BAUGH: As a percentage of net before taxes -- net income.

SENATOR WALLWORK: I don't understand what you are saying.

MEMBER OF AUDIENCE: Senators, that is actually part of my testimony.

SENATOR WALLWORK: Okay, we will let you off the hook.

MR. BAUGH: Okay.

SENATOR BEDELL: Thank you, Mr. Baugh.

Bruce Carpenter, United National Bank, Plainfield, New Jersey.

B R U C E C A R P E N T E R: Mr. Chairman, Senators, thank you very much for this opportunity.

Commercial Banks, which are members of the Federal Reserve System, are required to maintain reserves in the form of cash, or reserve deposits at the Federal Reserve. State banks, which are not members of the Fed are also required to keep reserves in the form of cash or deposits in banks so designated by the Banking Commissioner.

S & L's, however, are required to keep reserves, but the reserves are neither defined, nor segregated, nor liquid. In addition to needed cash, these reserves may be in any form of income producing assets. Therefore, the required reserves of the S & L's produce income for them, while the required reserves of banks do not.

The FSLIC insured Savings and Loan Associations are required to have combined reserves and undivided profits equal to 5% of their savings capital, or their deposits. The higher the undivided profits of the Association, therefore, the lower the required reserves are.

In the non-FSLIC insured S & L Associations they must have 6% combined position of reserves and undivided profits. In either case, a new S & L has 25 years to work itself up to that 5% or 6% requirement of the combined position reserves and undivided profits.

Commercial banks, however, are required to maintain these reserves at all times, averaged out every two weeks and there is no 25 year period to build them up.

A bank's required reserves against demand deposits vary from 7% up to a maximum of 16.4% of their demand deposits. The bank's required reserves against time or savings deposits are 3% of those deposits and in addition to that, the bank must maintain reserves against time certificates of deposit, ranging from 1% on shorter maturity CP's to 6% for deposits over \$5 million with maturities of less than 180 days. But, in no case may their reserves be less than 3%.

Thus, for most banks of average size in New Jersey, the average reserves against all deposits fall in the 8% to 10% range. In addition, the undivided profits of New Jersey banks average 2.9% of deposits. Therefore, in a comparison against the 5% or 6% position of S & L's, New Jersey banks are required to maintain anywhere from approximately 11% to 14%, looking at reserves and undivided profits.

While a bank's required reserves in its undivided profits are higher, percentagewise, than S & L's that is not really the important point. The bank's reserves are clearly defined and segregated in the form of cash or deposits at the Federal Reserve Bank where they stand as liquid, dependable, non-income producing backing for deposits.

The S & L's reserves, other than about the 2% necessary cash, are not segregated nor liquid at all, they can be spread all over the asset side even in 30 or 40 year mortgages. Reserves are lumped in with undivided profits in the S & L account and reserves are used to produce income in other than cash and no reserves at all.

The statement was made previously that A-63 will require S & L's to maintain the same reserves as banks and that is somewhat of a perversion since, as I understand it, they are required to maintain the same reserves as Savings Banks and 50% of those reserves may be held in the form of U. S. Government Securities. So, again, the reserves are available to produce income.

Another very important purpose of the required reserves is to control the money supply and thereby control the credit supply, economic growth, and what many people consider to be perhaps the most pervasive problem that we face today, that of inflation. Recent moves by the Federal Reserve to tighten reserve requirements in order to control inflation, particularly point to this regulatory tool. By allowing reserves to be held in a combination of income-producing assets and undivided profits, this important regulatory tool to control inflation is lost.

Thank you very much. I would be happy to answer any questions you might have.

SENATOR WALLWORK: What powers do the Commercial Banks have that Savings and Loans don't have?

MR. CARPENTER: Excuse me?

SENATOR WALLWORK: What powers do Commercial Banks have that Savings and Loans don't have?

MR. CARPENTER: What powers do they have? We are currently able to offer checking accounts to our customers. We are able to make certain types of loans which Savings and Loans are not allowed to make. Some banks are permitted trust powers which S & L's do not currently have.

Primarily, other than the deposit services, which demand deposits for

checking accounts represent, most of the distinction would be in the lending area.

SENATOR WALLWORK: So, some of these powers would necessarily mean that we should have a more liquid type of money available for moving through the various financial requirements? I thought that Savings and Loans, for instance, had to have a five percent liquidity and that was basically cash, or a liquid asset. You say they can have it in a 40 year mortgage?

MR. CARPENTER: They are required to maintain a 5% reserve position against their deposits if they are an FSLIC insured association. But, they can use their undivided profits to offset a portion of that.

SENATOR WALLWORK: It would be in cash, it wouldn't be in mortgages?

MR. CARPENTER: They obviously need some cash to conduct their business, yes sir.

SENATOR WALLWORK: How much cash do you then think they would have to set aside if they had checking privilege?

MR. CARPENTER: Well, I think certainly the reserves that are required should be identical to the reserves required of Commercial Banks since the liabilities would be essentially the same.

SENATOR WALLWORK: But, if they don't have all the privileges that a Commercial Bank has and they only have limited powers, shall we say, then they should have a percentage that is not the same, wouldn't you say?

MR. CARPENTER: The nature of the liability, the checking accounts at the Savings and Loans and the checking accounts at the Commercial Banks would be essentially the same and, therefore, the security behind those should also be comperable.

SENATOR WALLWORK: Do you find in your experience that banks are cashing a lot of checks that are fraudulent?

MR. CARPENTER: I think a lot is a qualitative, or subjective, judgment.

SENATOR WALLWORK: How many dollars would you estimate that would be on an annual basis?

MR. CARPENTER: I can't give you a specific estimate for the State.

SENATOR WALLWORK: Don't you think it is a big problem?

MR. CARPENTER: I think it is a significant problem for the banking industry. I think it is a very safe statement for me to make that we lose many times the amount of money in fraudulent checks than our own institution has lost in its entire history through armed robbery. In fact, we lose more money in a single month through fraudulent checks than we have lost in our history through armed robbery. So, that may put the problem in perspective for you.

SENATOR WALLWORK: Maybe you haven't been robbed very often. (laughter)  
What would you lose in a year's time in fraudulent checks?

MR. CARPENTER: I believe our losses last year in fraudulent checks in our institution, which is approximately a \$190 million institution, were in the neighborhood of \$30 thousand.

SENATOR BEDELL: Thank you, Mr. Carpenter.

The Committee would like to call upon Mr. Richard Klein, New Jersey Association of Realtor Boards.

R I C H A R D K L E I N: Mr. Chairman, members of the Committee, my name is Richard Klain. I represent the New Jersey Association of Realtor Boards. We have given you a synopsis of how we feel about this matter in letter form.

I would like to just highlight one or two of the paragraphs for you.

The connection between mortgage availability and real estate sales is easily demonstrated. If funds are not available for prospective buyers to purchase new or existing homes, then those homes are not sold and the great number of professional realtors in New Jersey essentially close up shop until the economy changes.

We have worked closely with the Savings and Loans over the years since they provide the primary source of mortgage money to New Jersey home buyers. We believe, as they do, that every attempt should be made to lessen the impact of the economic cycles on the mortgage and the real estate business.

The New Jersey Association of Realtor Boards believes that A-63 will provide an effective tool to help Savings and Loans retain the funds they need for housing. We believe that the recent availability of interest-bearing checking accounts in Commercial Banks and Savings Banks will create a period of reduced savings inflows which in turn will adversely affect the realtors of New Jersey.

Passage of A-63 will give Savings and Loan customers a convenient service which we believe will induce many of them to keep their accounts with Savings and Loans in New Jersey, where it will be available for housing.

Thank you very much.

SENATOR BEDELL: Thank you for your brevity too.

Ladies and gentlemen, we are going to adjourn for approximately one hour. We will resume at 2:00, or shortly thereafter. The first speakers scheduled will be Mr. Robert O'Brien of Carteret Savings and Loan and Mr. Richard Gallaudet of the National State Bank of Trenton.

(lunch break)

AFTERNOON SESSION:

SENATOR BEDELL: Good afternoon. Ladies and gentlemen, this meeting of the Senate Committee on Labor, Industry and Professions is again in session. We are still on bill A-63. The Committee would like to have Mr. Robert B. O'Brien, Jr., President of the Carteret Savings and Loan Association, Newark, New Jersey come forward at this time.

ANTHONY MAJEUSKI: "Mr. Chairman and members of the Senate Committee, we, here in New Jersey, are not the first people to sit in debate on the issue of transaction account powers for savings and loan associations. The question of whether savings and loan depositors should have convenient access to their money has been asked before. Individual states, other regions, and federal agencies have all, I repeat, have all, answered yes. Two neighboring states already sanction NOW accounts. Pennsylvania grants such powers to its savings banks, and New York extends transaction account rights to savings and loans as well. All thrift institutions in New England can offer checking accounts to their depositors.

"The national precedents for savings and loan checking are not inconsiderable. The Federal Home Loan Bank Board gave its approval over two years ago, by amending the Federal Savings and Loan Insurance Corporation regulations to allow demand accounts in insured associations. Comptroller of the Currency John G. Heimann also supports savings and loan transaction accounts. He has repeatedly said that checking power would enhance the association's responsiveness to money market demands, adding a new flexibility to institutions that traditionally deal in long-term, fixed-rate mortgages. But the most persuasive advocate of demand accounts is our own State Assembly which, by passing Bill A-63 with only nine dissenting votes, indicated its conviction that New Jersey residents have an opportunity already common to other northeastern states.

"The people most directly affected by the issue are the four million savings and loan depositors in New Jersey. A survey of Carteret Savings depositors - of which they number approximately 135,000 to 140,000 - showed that 91% have checking accounts with banks. An overwhelming majority of these said, for convenience purposes, they would prefer to have checking accounts at Carteret, along with their savings accounts.

"Remember that savings and loans serve not only their depositors, but also people who wish to buy or repair homes with mortgage funds. Associations devoted 84.55% of their assets to mortgage loans in 1977, which was an increase over the previous year. Savings banks during that same period had only 57.24% of all their assets in mortgages over the same period, while commercial banks had no more than 23.33%.

"On November 1, banks gained the legal authority to transfer funds automatically from a depositor's savings account to his checking account. This amounts to an interest-bearing checking account, a lure that is expected to draw great numbers of depositors away from savings and loans. If the assets of the associations are depleted, the funds available to make mortgage loans will be seriously reduced.

"The construction industry depends on mortgage availability to promote housing development and forced re-employment. If savings and loans are not permitted to compete with banks for checking account funds, the resulting depletion of mortgage funds, and thus of housing construction, will deprive building trade workers of needed jobs.

Much legislative attention has been paid recently to the problem of revitalizing our inner cities. No one is more aware of this than the savings and

loan associations, which are obliged by law to attend to the mortgage needs of their urban communities. In the past two years the Central Corporation of Savings and Loans channeled over \$15 million to senior citizen and other urban housing programs. To deny savings and loans access to their share of checking account deposits is to ignore the redevelopment needs of so many cities which have come to depend on the transfusion of mortgage funds from savings associations.

" New Jersey banks have claimed that the provision of demand accounts would give savings and loans an unfair competitive advantage. The banks have total deposits of nearly \$26 billion - including a near monopoly of 90.42% of all Direct Electronic Funds Transfer deposits. Thrift institution deposits were only 26% of the banks' total. About \$9 billion of the banks' deposits are held in checking accounts. Even assuming the remote possibility that associations drew a share of the banks' checking deposits equal to their percentage of total deposits, this would involve \$2.3 billion, or less than 10% of the whole. What is more likely is that a few hundred million dollars will revert to savings and loan demand accounts, having a negligible effect on the banks, but maintaining or improving New Jersey's mortgage market.

"In opposing association transaction accounts, the banks insist that savings and loans already enjoy favored status in regard to taxes. Commercial banks do pay more state taxes, but associations pay more federal taxes. More significant is a comparison of the effective tax rates on both types of institutions, that is, the percentage of net income paid in state and federal taxes. In 1977 commercial banks were taxed at a rate of 22.58% while the effective tax rate of savings and loans was 32.89%. Thus, commercial banks paid only \$1,655 per million dollars of average assets. While associations, however, paid out \$2,211 per million dollars of average assets.

"In 1973, the New Jersey Legislature voted to avoid undue taxation of savings institutions. It was demonstrated that savings and loan taxes are paid out of statutory reserve funds. Reserves must be maintained at a rate of 5% of deposits, so higher tax rates would inhibit deposit growths. Put another way, every \$1 million in additional association taxes removes a potential \$20 million from the mortgage market.

" A decision in favor of association transaction accounts will have great impact throughout New Jersey. It will bring the Garden State into consonance with regional and national precedents. It will augment thrift services for four million depositors. It will stabilize or improve the mortgage market with related effects on employment and urban redevelopment. Checking powers may be new to savings and loans, but they are consistent with the associations' tradition of providing the public with mortgages, and so with homes and with jobs." That is his statement.

I just wanted to comment on a few of the things that I have heard. Number one, the regulation "Q", which, at the outset, Mr. Lawlor pointed out he felt, and I agree with him, is not an item of issue. But, as long as it has been brought up, I wanted to point out that under Reg. "Q" savings and loans are allowed to pay up to 5 1/4% on their passbook or base account, while the commercial bank is allowed to pay up to 5% on that same account. As of December 31, 1977, in consideration of these rates, 95.4% of the State chartered associations in this State were paying their 5 1/4% rate - while 63.3% of the commercial banks were only paying the 5% rate.

One other item that I would like to point out, during the last three years, Carteret Savings has opened twelve branches throughout the State. I try to attend each and every branch opening and meet with the new and old customers of Carteret.

The most frequently asked question is, "Do you offer checking accounts?" Of course, my answer always is, "No." The next question is, "Why not?" I tell them, well, we don't have the legal authority. And they want to know what we are doing about it. I say, "Well, we are trying our best." In accordance with that request, that is the request of some of our 135,000 depositors, who are also owners of our association, let this be physical evidence that I am trying to comply with their wishes here today. That is, to help assist in the acquisition of checking account powers for savings and loans which is so badly needed.

If there are any questions, I will be glad to answer them.

SENATOR BEDELL: I have a question. The contention by the bankers is that the savings and loan board at the present time permits the savings and loans to take a month's interest in advance on a mortgage without that being deemed usurious, and this is something that is not permitted to them. What do you think of that contention? Do you think that is an advantage of the S & L's which should be extended to the banks, or is there a valid reason why they should be given this exclusive right?

MR. MAJEUSKI: Well, we are not doing it. The only interest that we take in advance has to do with the partial loan, at the inception of a mortgage loan. For instance, if an individual was to come in on the fifteenth of the month, we would charge him the fifteen day's interest, simply to put him on a monthly schedule, month after month. But in many, many cases there is no pre-payment of interest.

SENATOR BEDELL: Another contention of the banking interest is that the delinquent interest on a mortgage can be added to the principal due, added to the total unpaid balance and interest charges on next month. This is evidently something the banks can't do. Is that substantially true or not true?

MR. MAJEUSKI: We do not do that. We do not capitalize the interest. But there are advantages and disadvantages of doing it. For instance, in a period of escalating interest yield, I don't think you would want to capitalize a mortgage loan which you put on at 7%, which, if you capitalize now you could be getting 9 1/2%. So, there are advantages and disadvantages to it.

We at Carteret do not do that.

SENATOR BEDELL: Thank you.

SENATOR WALLWORK: The 63% of the commercial banks you said paid the full 5% rate. Without looking at the percentage of the banks, because there could be 90-some odd percent---

MR. MAJEUSKI: 95.4%.

SENATOR WALLWORK: ---95.4% of the savings and loans gave that stack up with the size of the banks? In other words, there could be a lot of little banks giving the one rate, as compared to the savings and loans. I am more interested in the amount of monies on deposit rather than the percentage of the banks giving the maximum interest rates. Do you have figures along those lines?

MR. MAJEUSKI: No, I don't have the answer to your question. In fact, I got these figures from the prepared text of Mr. Lawlor and this is strictly number. I don't believe this represents dollar amount. It is just the number of banks.

SENATOR WALLWORK: I think somewhere along the line I received information that some of the large savings and loans in effect don't give the full 5 1/4% interest.

MR. MAJEUSKI: We do.

SENATOR BEDELL: Thank you so much. Mr. Lou Bauman, Vice President, United National Bank, Plainfield, New Jersey.

L O U I S      B A U M A N: Senator Bedell, Senator Wallwork, Senator Gregorio, I too want to address myself to Reg. "Q" and the real implications and significance in this overall dialogue, because I think there has been a misrepresentation right along as far as the significance goes. I would like to take that perspective from three points of view, two from quotes from savings and loan officials who are not here today, apparently, and one from my own perspective and from my own bank.

We start out with some hard figures. Senator Wallwork, if I may anticipate your questions, since 1962, our bank has paid the maximum interest rate permitted on savings accounts under federal statute on all accounts of \$10 and more, which is the low figure in our market which happens to be Plainfield. It is the one place where we might enjoy a competitive edge, and, of course, that is arbitrary, and a decision on our part.

Plainfield is a market worthy of your consideration for a number of reasons. As you know, it is a depressed town. We lost 10,000 jobs there in the last eighteen years. It is also probably the most competitive bank market with respect to commercial banks versus savings and loans that you will find in the State. We have offices of five savings and loans in that town, and the combined assets of those organizations are well in excess of \$3 billion.

We are historically and traditionally, I would say, the commercial bank in that community. We are a \$191 million bank. Since 1965 when Plainfield's troubles first started to get severe, the compound annual growth rate of all of the commercial banks in town has been less than 4.5%. The compound annual growth rate of the savings and loans in town has been somewhat in excess of 16% annually. I think those figures, more than anything else, perhaps, reflect the real impact of reg. "Q" on the financial markets.

Since I am in charge of marketing, I might be a little embarrassed if I told you our growth rate also was under 5%, but I say with some satisfaction it is a little better than that of the other commercial banks. Reg. "Q" has been the total answer to that problem. That variable makes all the difference in the world.

I can cite another example. In 1971, the Queen City Savings and Loan Association - which is our good competitor and good friend, candidly - and our bank both opened branch offices, one across the street from the other in Warren Township, a community of 8,000 people in Somerset County. Both of us paid the maximum, and have been paying the maximum when we were committed under Reg. "Q" right down the line. We both are into Saturday hours and all the extra programs you can possibly imagine. At the end of that seven year period, Queen City Savings and Loan has \$29 million on deposit in its warrant office, and we have \$6 million.

Now, those figures may differ a little bit in other markets of the State, but not tangibly. The commercial banking system in its move to the suburbs has taken one heck of a bath under that simple instrument, Reg. "Q." And you can cite case after case, and city after city, but commercial branch offices of five years vintage and longer are running in the red still simply because they can't attract deposits. I can give you a whole book full of cases where that applies.

Now, over the last ten years, the average growth rate for the savings and loans in this State has been 14.8%. The average growth rate for the commercial banking system has been 6.8%. I will remind you that that latter figure is below the growth rate and the monetary supply over that same decade. Now, against those figures, the savings and loan people have come to you year after year with the right campaign; that started with EFTS, and then went to direct deposit, and

then went into the danger of "IR" equality. They said commercial banks were going to take something away from them, and they needed equality to stay even. Obviously, the figures point to just the opposite. We have been losing the battle year in and year out, and I am not here to argue against demand deposits for savings and loans as much as I come down to argue for equity to the commercial banking system. We have been in trouble, and I think we are going to remain in trouble as long as Reg. "Q" is a factor.

Another figure that might interest you is the savings and loan association figure. A year ago they were advertising they had three million customers. By March it went to three million five hundred thousand customers, and today, witness after witness has told us that there are four million. That represents something like 79% of the adult population of the State of New Jersey. My question is, with all these problems that they have experienced, how can they come down year after year and reflect that kind of market penetration and beg for more.

One other point. If the savings and loans get checking account powers, there is only one place they can get the money from, and that is from the commercial banking system. Of our 22,500 checking accounts, 16,500 are in personal checking accounts, individuals, husbands and wives, et cetera. The average account is \$1100. Obviously, this is the target of the savings and loan industry. I just wonder, what do they expect the commercial banking industry to operate on after they have taken that too? I don't think it is incumbent upon the legislature to give another asset to an industry that is already sailing well out in front.

I don't have figures, and I am sure nobody does, for current deposit trends in the State of New Jersey. I know that for most of the commercial banks we have fallen back into a no growth position since June when the Federal Reserve System Board started to tighten money, and started to tighten it severely. But the argument that the savings and loan industry should be protected to keep the housing industry on its record breaking pace alive is sort of in defiance of something else, and that is, the Federal Reserve - the Federal Reserve Board and the Carter Administration's desire to cool the economy. The housing industry in New Jersey can't be separated from the rest of the economy. It may be important, and it may be critical, but it is not alone. I think you have to look at the whole apple, if you are making this consideration under economic criteria at the moment.

Let me point out two other things, just to indicate that the savings and loan industry isn't exactly unanimous on its down playing of the importance of Reg. "Q." A quote from a Courier news story, which is the paper in Bridgewater, on October 2, written by D. T. Vanado, who is the Courier News Business Editor - and this is not taken out of context. This is an isolated paragraph, and the only reference - "James Lothian, Director of Marketing at the First Federal Savings and Loan" - which is one of the big savings and loans in Central Jersey - "called the climate between banks and savings and loans extremely competitive. Adding that the advent of both checking accounts and an extended regulation "Q" will give them the real advantage over the banks." Now that is a spokesman for the savings and loan industry.

I will give you another quote that was in the American Banker on October 31, it starts right out, "Stewart Davis, President of the United States League of Savings Associations, Monday urged the Federal Home Loan Bank Board to adopt a caution approach to authorizing any type of third party payment plan for federal savings and loan associations." He added, "The industry does not want the new authority at present."

Later on in the same article Mr. Davis said, "S & L's do not want third party transfer authority, because they feared this would lead to a push to remove the differential now afforded S and L's on passbook accounts."

Now, given that history, I don't see how the savings and loan people can get up here and try to play down the significance of Reg. "Q." It is the all encompassing factor in this discussion and in all other discussions relative to this topic. Thank you.

SENATOR BEDELL: Thank you. You said you did not come to Trenton to ask that this not be extended to savings and loans, but to ask for equity. We are trying to define where we are in that area. Would you say that that area of inequity is not limited to but principally surrounds state taxation and reserve maintenances?

MR. BAUMAN: That is a very complicated subject, Senator Bedell, because the banks pay a high implicit tax in their purchase of state and municipal bonds, and so forth. You know the tax structure there. I don't pretend to offer a great deal of expertise on the tax subject. Whether or not a common tax formula - which would seem to make sense for comparable businesses - would provide equity, I don't know. I would think the more prudent gesture might be to offer the savings and loans checking account powers if they would reduce by statute their savings rate to the same level as commercial banks. I was wondering how they would react to that proposal, since they want parity and equity?

SENATOR WALLWORK: I wonder how the depositors might react?

MR. BAUMAN: Well, how do you think our depositors react to this situation?

SENATOR WALLWORK: Well, the regulation "Q" is put in by the federal people, and they had extensive hearings as to the reasons behind it. Some of the thrust of your comments was directed at the economic activity of the State. That concerns me. If the savings and loans have checking privileges, what is that going to really mean economically to the commercial banks, and, therefore, to business and jobs in this State?

MR. BAUMAN: I seriously think that the expansion of the commercial banking system will halt immediately. I think you will find applications for branch offices decreasing. We have two losers now. I know there are branch banks in Plainfield that are ten years old that are losers. If you take that demand deposit, the one thing we had, the one advantage, it will halt the banking system immediately. That was the reason for the spread of the system. We had almost 1,000 bank buildings built in the State over the last ten years. I am sure, if anybody had known that you were going to spread this prerogative to another 1,000 offices, half of them never would have been built.

I think this is critical. It is the one real instrument we have for getting people in the doors now. If you lived in a typical suburban community, and you had a choice between a 5 1/4% savings account and a checking account in one office, and a 5% savings account and checking account in the other, where would you go? It is obvious that eight out of ten people prefer to go into the savings and loan now even without the checking accounts.

SENATOR WALLWORK: The savings and loans are primarily making their money on the differential that they are able to get through a home mortgage. Whereas, the commercial banking field has many other avenues open for making investments and getting a return.

MR. BAUMAN: Senator, if we looked at our rate of return on our investments, our commercial loan department, our installment loan department, our mortgage loan

department, and our investment department, for that matter, all fall between the 8.10% and 8.5% category. That is our average rate of return on all those investments. There is not a singular difference in the rate of return in those areas. Some banks make more in the installment loan department than we do, but we run a low rate, fairly conservative program.

The rate of return is not significant. The rate of taxation might be different. The tax considerations on the asset mix and the portfolio mix. We are not allowed to invest in common stock; I believe they are. That is one factor.

SENATOR WALLWORK: I really don't have any further questions, but I do think, Senator Bedell, that this Committee should get from the Governor's Economic Policy Council some kind of an overview as to what this Council visualizes this checking account privilege for savings and loans might mean. I am concerned on the one hand that people have access to their money through a checking account. As one person who testified earlier, senior citizens are affected especially. By the same token, we have to have a good balanced banking community, and we can't give privileges to one and try to take away the viability of another. Commercial banks from what you are indicating are going to have more problems, and they are not going to be able to give the commercial loans to businesses to create jobs in the State. So, we have to have a trade-off here.

I think we are not going to get from both sides today a reasonable judgement call on that because, of course, that is a debatable point. But, I think the Economic Policy Council might have some insight and some viewpoint to give to the Committee on what they feel might be the economic impact.

MR. BAUMAN: Senator, I don't want to overlook the fact that the commercial banks are involved in the mortgage market too. I deliberately asked you that because our bank happens to be one whose majority loans are in mortgages, and 95% of those are also in residential mortgages, and of the other 5%, suprisingly, a substantial number are in churches.

SENATOR BEDELL: Mr. Peter Mc Donough, New Jersey Builder's Association.

P E T E R M C D O N O U G H: Mr. Chairman, Committee members, my name is Peter Mc Donough, Jr. I am representing the New Jersey Builder's Association. I thank you for this opportunity to address this piece of legislation which is very important to the building industry. My remarks are brief. Unlike many of the witnesses before me, I am not a financial expert, and that maybe for the good or the bad of all of us.

A-63 has been before the Legislature for years. The New Jersey Builder's Association has reveiwed this bill, and until a few weeks ago, our official position on this bill was one of mild support.

The advent of the Federal Reserve Board's recent ruling allowing federally chartered banks to automatically transfer funds from interest bearing accounts to checking accounts caused my association to change its position on this bill from mild support to that of highest support. You have heard repeatedly that savings and loan associations loan about 85% of their assets in mortgages. These mortgages are obviously for previously owned homes and for newly constructed homes. A recent check of about 100 of our members who are involved in residential construction revealed that mortgage money for newly constructed housing is provided in overwhelming proportions by savings and loan associations. In fact, for many builders, savings and loans are their exclusive source of funds.

It is our deepest concern that the ability to provide, in essence, interest

bearing checking accounts by the commercial banks who have no legal obligation and have exhibited only minimal desire to lend in the housing market will cause mass disintermediation of funds out of the housing market and into the commercial market. This would obviously result in a very dramatic drying up of available mortgage funds for newly constructed housing causing the building industry to once again grind to a halt.

The latest federal ruling combined with the erosion of the advantage provided to depositors in savings and loans by regulation "Q" has, in our opinion, destroyed any incentive to deposit funds in the primary source of mortgage funds in New Jersey. It is our belief that only by enacting A-63 will the anticipated damages to the housing industry be mitigated.

The New Jersey Builder's Association wholeheartedly supports A-63 and urges that it be released from Committee and brought to a vote as soon as possible. Thank you.

SENATOR BEDELL: Thank you. Arden Melick, Public Relations Officer for Fidelity Union Trust Company, Newark, New Jersey.

A R D E N M E L I C K: Mr. Chairman, members of the Committee, I am Arden Melick, Second Vice President and Public Relations Officer at the Fidelity Union Trust Company. We at Fidelity very much appreciate this opportunity to talk with you. We are very much concerned about the economic situation that may occur if this legislation is passed in its present form.

One of the themes that has been sounded by the Savings and Loan Industry in their appeal for checking account authority is a contention that they are people oriented and they need this service in order to meet the needs of people. This claim leaves the impression that they are more involved in the service of people than are commercial banks - but commercial banks are not people banks - and that commercial banks care only about their corporate clients and not at all about the average person.

Let's look at the facts. At Fidelity we have one billion dollars in loans outstanding. These mortgages for one to four family residences account for \$254 million, and personal consumer loans total \$193 million. By contrast, commercial and industrial loans stood at \$395 million. In other words, 45% of our loans go to people for houses, cars, home improvements, and other household purposes, and this story can be repeated for other individual banks across the State without exception.

One quarter of our lending is for home mortgages, and there are a large number of banks in New Jersey which have over 50% of their loan portfolio in this same area. Furthermore, as members of the Committee are well aware, loans to business and industry help to provide jobs and income to thousands of New Jerseyans, including those who are members of the construction trades which have been hard hit in recent years by changing economic conditions.

It is true that this is the age of the consumer, and I know that you and our industry are under great pressure to provide what appear to be more direct benefits to that consumer. But I submit that a healthy balance in our banking industry may in fact provide greater consumer benefits and services than would accrue with the passage of this bill in its present form.

I would especially like to note that Fidelity is deeply involved in the civic affairs of Newark. We believe that the future of New Jersey is closely linked to the future of its largest city. We contribute annually to the Newark Economic Development Corporation, the Greater Newark Hospital Development Fund, the United Way,

and many other civic endeavors. Bank officers are on the Board of Directors of these and other organizations including the YM-YWCA, the Newark Museum, and the Essex County Day Care Coordinating Council.

In addition, Fidelity sponsors work, study, and tutorial programs with local high schools, has assisted college students with internships, with research and writing projects, and opens its meeting facilities for organizations such as the Newark Jaycees, and gives space to voter registration, blood pressure testing, and we also provide important service such as the cashing of welfare checks, dispensing of food stamps, and for our very charming senior citizen lady, we do issue bus passes for senior citizens.

I mention all of this to illustrate the point that we care about our customers and the community in which they live, and that we are deeply involved in helping people and in helping New Jersey build a better state. I am concerned that the costly multi-media advertising campaign mounted by the thrift industry may have created a very different impression of commercial banking, and I hope you will keep in mind that we are people too.

SENATOR WALLWORK: Do you have any specific information on what the economic impact would be?

MS. MELICK: I don't have specific numbers, but I have done a great deal of research myself, into this general area, and I feel very strongly that we are at a crisis point economically if we destroy the balance any further. I am very concerned about our inner cities throughout the state. I feel that the commercial banking industry has done a great many things that no one has been really aware of in creating economic survival for many of our cities. I feel that we have helped the construction trades, and the building trades, to a greater degree than anyone believes possible. We have not taken credit for these things in the past, and I think it is time obviously that we tell our story better than we have told it, because I do feel that the economic situation would suffer greatly if the commercial banks had any greater competition than they have now faced.

SENATOR WALLWORK: What do you think your early findings will be on the authority now to transfer funds from savings accounts into checking accounts?

MS. MELICK: Well, we are monitoring that very carefully. I think one point that is most interesting on that score is the fact that the consumer felt they would immediately have a great many benefits from this. But, in reality, unless they keep a certain amount in there at all times, they are not going to wind up with much more interest than they thought they would have originally if they just kept it in a savings account.

It is really too soon to tell how things are going to fall in that area, but we are monitoring it carefully. We have beefed up our own research so we can deal with it.

SENATOR WALLWORK: Is there a minimum balance of \$1,000, or what?

MS. MELICK: No. Each bank in the State within certain guidelines has a different program. The breakeven point for the consumer, as it now has been elucidated in studying the different programs, is higher than anyone thought. Consumers thought immediately they were going to make a lot more money. That actually is not the case when the program is costed out very carefully. So, I think that research is the key to this whole question, and more must be done. I think if you can get your economic information from the Governor's Commission, that is most important. I really urge you to study it carefully.

SENATOR BEDELL: Thank you. Mr. Richard Schaub, former Commissioner of Banking, State of New Jersey.

R I C H A R D F. S C H A U B: Chairman Bedell, and members of the Committee, I am Richard F. Schaub, President of the Hunterdon County National Bank of Flemington and have been for the past two and a half years. Prior to that, I served for six years as Deputy Commissioner and Commissioner of the Department of Banking, State of New Jersey.

What I will say to you now is consistent with what I said to you when I held that office as Commissioner, and that is, as most of the commercial bankers in the State of New Jersey, the commercial bankers have absolutely no reason to want to keep the thrift industry out of the checking account business. All that we are asking, of course, is that we all be allowed to play the game on the same field and by the same rules.

I pointed out to the Assembly Banking Committee when this bill was up for their consideration that there is one key area of concern to me, which I do not think was adequately explored, if at all, by the Assembly Committee. I think it should be looked at very carefully by the Senate Labor, Industry and Professions Committee, and that has to do with the competitive balance among financial institutions in the State of New Jersey which was touched upon briefly by two former speakers. But, I lived through - and helped design - the era of rapid bank expansion in New Jersey.

I can show you transcript after transcript of hearings concerning branch banks, commercial banks, savings banks, and savings and loan associations where, in the determination of feasibility, certain deposit projections were made in each case having to do with the feasibility or the ability of that branch office to succeed and become profitable. In each instance there was a portion of each area of deposits allocated to each kind of financial institution. As has been pointed out, we have had a rapid expansion and those branch offices, the success of those branch offices, was based on the allocation of deposits. Certain of those deposits are to the thrifts, because of reg. "Q" and certain, for some reason, of the savings deposits are to commercial banks, because some people prefer to save in commercial banks, regardless of the regulation.

But the demand deposit portion of the deposit potential in the State of New Jersey is key to the competitive balance that we have created in our commercial banking industry, and I do fear - and I feared this when I was the regulator in the State of New Jersey - now that to tip this delicate balance of competition would, as has been pointed out before, have serious long-lasting detrimental effects on the commercial banking industry.

I have no prepared remarks, and anything else that I would say would be redundant, I am sure, but I will answer any questions that you may have.

SENATOR WALLWORK: You talked about competition. From your experience, what do you think would be the competition that New Jersey banks would have, and savings and loans, if this bill did not to pass, with New York State and Pennsylvania both having the ability of offering this type of service?

MR. SCHAUB: Well, Senator Wallwork, I have found in my years of banking that bank customers are pretty well fixed in their habits, and it takes a long time for them to change their banking habits. I think this can be evidenced, perhaps, by the experience of the commercial banks since November 1, with the linked account or automatic transfer accounts. People are reluctant to make major changes in their banking habits, especially if it is accompanied by a great inconvenience.

And I think that the mere convenience of a variety of financial institutions in New Jersey would not cause a great number of New Jersey residents to seek banking arrangements in either New York or Pennsylvania.

SENATOR BEDELL: Thank you very much. Mr. Ed Heil, Vice President, First National State Bank, Newark, New Jersey.

EDWARD L. HEIL: Good afternoon. Thank you for the chance to speak before your Committee. My name is Edward L. Heil, Senior Vice President, First National State Bank of New Jersey in charge of real estate and mortgage loans.

Part of my disertation today to you is to apprise you of the contributions that the commercial banks make with regard to banking and urban real estate loans. And for the most part, my remarks will be oriented to First National State Bank, and its experience, and I will try to interpose, where I have the knowledge, the experience of the other institutions in Newark.

Our bank, as you know, was established in 1812 in the City of Newark, and we have been there continuously since that date, and we have been trying to reaffirm our position in the City of Newark. The other commercial banks in the city, as well as First National State Bank, had been involved in direct urban lending in real estate throughout the 1950's, continuously through the 1960's, and also during the very tight money periods in the 1970's. Commercial banks are generally short-term lenders, due to the nature of the customers deposits. Due to this short-term nature of our deposits, we are generally involved in short-term lending, and this generally takes the form of conventional construction loans.

Our experience in the City of Newark - as you may not be totally aware - as a commercial bank has mainly involved FHA financing projects, and we have handled approximately one quarter of a billion dollars in that financing. The majority of this portion of this type of lending has been in the State of New Jersey, and a majority portion of that was in the urban centers. Projecting that the average cost per unit would be approximately \$28,000 that means that over this period of time we have been able to produce approximately 7200 units. This involves both new and rehabilitated housing, and this is very, very important in the urban areas.

As to the nature of the deposits, savings and loans are directed by law to invest a good portion of their assets and long-term investments, such as residential real estate loans, and these are usually supported by what are classified as long-term deposits such as in savings accounts. The premise here would be economically unfeasible with regard to the checking accounts available to the savings and loan associations. The economic hypothesis being that you would be financing long-term loans with potentially short-term deposits. They would then be available to the sudden withdrawal demand or checking funds that would have a serious impact on the continuance of their programs.

The bank's involvement in various other areas within the real estate and housing agencies in New Jersey deals with our participation in the New Jersey Housing Finance Agency underwriting and bond issues. It also deals in the New Jersey Mortgage Finance Agency in the loan to lenders program. It also deals in the New Jersey Economic Development Authority providing an alternate source of commercial investment. The banks also involve themselves in the Newark Housing Development and Rehabilitation Corporation, and these are mainly concentrated in the urban centers, and specifically in the City of Newark, and this deals mainly

with the rehabilitation of existing units, which is very, very germane to the urban centers. It also has the ability to create additional new housing units within urban areas. There is also participation by the commercial banks in the FHA-312 Program, which is a low interest rate home improvement loan. There is also involvement in the Neighborhood Improvement Program. This is to support the actual individual home owner for reinvestment in his community and also his property. These home improvement loans are generally handled by the commercial banks.

One primary example that I would like to give to you deals with the Essex Plaza project for the City of Newark. This was the largest single rehabilitation project in the United States. It involved approximately \$13 million, and dealt with the rehabilitation of what was the 1060 Broad Street Building adjacent to the Essex House. This was handled predominantly by the commercial bank, and I might parenthetically say that the commercial bank stepped in to take over this project and lead the financing when a state agency was not able to handle the project.

Within that framework, one of the local savings and loan associations, who had a particular interest in this project, did not participate and refused to participate in this project which was very germane to this urban center.

Support of the mortgage market - commercial banks also have other ways of supporting this market in the support of residential real estate. We also are a great supporter of the mortgage banking in this State. The mortgage banking industry mainly handles single-family residential properties, provides and handles a great part of the residential real estate loans in this state, and it also is a supplier of the loans to the savings and loan associations directly and also through the GMA programs.

These are only a portion of the services that are provided by the commercial banks to support the residential real estate market using demand deposits and consumer checking accounts. I think it is very germane of you to take this into consideration, because the lifeblood of the community generally evolves and has evolved around the commercial bank and the criteria within the State for a commercial bank lending in the real estate area is continuing to expand, and the banks have demonstrated that they are going to continue to get themselves involved and keep themselves involved in these programs. Thank you very much, gentlemen.

SENATOR BEDELL: Thank you, sir. Mr. Vernon English, Executive Vice President, White Horse Saving and Loan, Trenton, New Jersey.

V E R N O N     E N G L I S H: Good afternoon. My name is Vernon English. I am the Executive Vice President of White Horse Saving and Loan Association here in Trenton. We are a relatively small association with about \$28 million in assets.

Let me begin my remarks today by stating that I and my association do not want checking account powers. We would also prefer to go back to the time in the past when things were a lot less complicated and much more comfortable. Realizing that none of these desires are practical in this day and age, I will endeavor to explain why an association that doesn't want checking needs it so badly.

In reality this is 1978, and this fast-paced economy is vastly different than that from which we came. Surveys have repeatedly shown the things that we value as a society have changed, for the most part, from homemade apple pie and evenings at home listening to the radio to convenience food, electronic marvels, and a high degree of mobility. We, at White Horse Savings, feel rather strongly that if we cannot offer our customers the convenience of immediate access to their deposits, then it will only be a matter of time for us and the rest of our industry to become

completely immobilized by not having sufficient customer services and conveniences to retain the funds needed to finance the state's home buying needs.

These same feelings have been echoed by not only people from the savings and loan industry, but such people as the Comptroller of Currency John G. Heimann who has repeatedly called for checking powers for savings and loans, citing market-place demands and a need for greater flexibility in the structure of thrift institutions. Similar sentiments have been expressed by Bryce Curry, President of the Federal Home Loan Bank of New York, Lawrence Conwell, the National Credit Unions Administrator, and other regulatory officials.

Congress, meanwhile, has been actively considering a wide variety of measures that would extend checking account powers to all financial institutions. This would give federally chartered savings and loans authority to provide accounts. Experience has shown that when federal institutions are granted a significant advantage over state chartered institutions, a trend towards conversion from state to federal charter inevitably follows. Such a trend would remove these converting institutions from the regulatory authority with the New Jersey Department of Banking.

Because financial institutions look so much alike, customers of banks, savings banks, and savings and loan associations often cannot tell the three types of institutions apart. Most often, the buildings are identical; the lobbies look the same, and the services offered on the floor are similar. But, there is one major difference. When a customer enters a savings and loan association in search of services usually associated with financial institutions, the request must be denied. Customers looking for the convenience of dealing with a single financial institution, where they can establish an orderly savings plan and create an efficient system for paying bills and debts, are not able to find satisfaction at a savings and loan.

Petitions that I have circulated among my customers, and similar petitions that have been gathered from all parts of the State, give an overwhelming indication that savings and loan customers numbering nearly four million want to have the same right of immediate access to their deposits by means of a system of checking that customers in credit unions, savings banks, and commercial banks in New Jersey presently enjoy. Savings and loan associations are the only type of depository institution in New Jersey that cannot offer their account holders the convenience of a withdrawal by check. It is imperative that we be able to offer this convenience.

I think this need is very graphically demonstrated by the Treasury Department's recurring payments program. This program, when instituted in New Jersey, enabled thousands of individuals to automatically deposit their government checks into their checking or savings accounts. From inception, over 90% of the funds float into checking accounts at commercial and savings banks. The savings and loans found themselves with only 9% of the deposits and in a position of being unable to compete on an equal footing. Consequently, we were unable to increase the State's supply of mortgage funds. Direct deposit of recurring payments, at best, can only be considered the tip of the iceberg. The need for a full service package becomes more obvious as we enter into the age of electronic funds transfer systems.

The newest threat to inadequate supply of mortgage money in New Jersey has just emerged. In allowing banks to transfer automatically from savings to checking accounts, in the forty-eight hour period that first brought this service to New Jersey, my association had a net loss of over \$100,000 in savings. All this cannot be traced

to automatic funds transfer, but neither can it be said that this is a normal day for my association.

The day that these accounts were first offered, the banker just down the street from my office complained about being mobbed with people opening accounts. This negative impact on the state supply of mortgage money will not only affect the savings and loan business and perspective home buyers, but the home building industry, the real estate business, and many other related industries will be severely and adversely affected.

Gentlemen, care must be taken to avoid looking into the rear-view mirror and applying the same reasoning that has applied in the past. Customer service is the name of the game, not rate, not safety, not security. Bank competition is leading the thrift industry into electronics, and this competition is based on convenience.

Savings and loan customers must appear in person at the association's offices to make withdrawals. If these customers are not given the convenience of checking, particularly in light of the new automatic transfer provision for commercial banks, savings and loans will be unable to continue to provide the mortgage money to the extent that they have in the past. Thank you.

SENATOR BEDELL: Thank you. Any questions?

SENATOR WALLWORK: You said that you lost \$100,000 or that \$100,000 had been taken out in the first two days. You never sleep? You are open twenty-four hours a day?

MR. ENGLISH: I am open twelve hours a day.

SENATOR WALLWORK: What has been the trend in the last week?

MR. ENGLISH: It has slowed somewhat, but we are still losing funds.

SENATOR WALLWORK: What do your depositors normally take out, say?

MR. ENGLISH: Well, the withdrawals that we are experiencing at this time --- We normally get withdrawals for people paying their bills. We are getting a lot of withdrawals of the denominations of \$500 and \$2500 which happens to be the minimum account balances that most of the banks in this area are requiring for those types of accounts. That is the only conclusion I can draw.

SENATOR WALLWORK: You didn't do a survey or ask any customers?

MR. ENGLISH: Customers don't particularly enjoy being asked where they are going with their money, but we did, in order to do that, and, yes, we are definitely losing funds to the automatic transfer.

SENATOR BEDELL: Thank you very much. Mr. Peter Clancy, Government Banking Officer, First National State Bank, Newark.

P E T E R C L A N C Y: Senators, thank you very much for the opportunity to present to this Committee my views on the subject which is of obvious and crucial concern to the commercial banks in New Jersey.

If this issue is of crucial importance to New Jersey's banks, and it is, then it is of extreme importance, also, to the people of New Jersey. If this State lacks a healthy commercial banking system, the economic consequences to New Jersey will very definitely affect the people of the State in a negative way. I would like to direct the Committee's attention to one particular aspect of the way in which harm to our bank can mean harm to New Jersey's people.

As each of you is aware, the banks of New Jersey carry a large burden of responsibility as the providers of capital for government. We are the principal buyers of what are commonly referred to as municipals, or the securities of the

municipalities throughout the State, as well as those of school districts, county government, and agencies of State Government, and other subdivisions and agencies within New Jersey. The low rate of interest on these securities, which is offered by the banks of our State, has configured to keeping the cost of municipal borrowing considerably lower than it otherwise would be. It must be remembered that when a bank invests in municipals somewhere in New Jersey, it is diverting to this use funds that might otherwise be invested in the money market instrument, or in some economic activity which would normally bring a significantly higher yield. Lest there arise in the minds of any of you that some of this burden might simply be picked up by the savings and loans, I would submit to the Committee statistics which make it clear that the State savings and loans are not going to play an important role as providing a capital for government.

Banks presently hold \$3.6 billion in municipal bonds in New Jersey, while the S and L's who are trying to direct bank funds away from us by securing the enactment of A-63 have only \$207 million. That is about \$1 invested by savings and loans in municipals for every \$18 invested by the banks. What will municipalities, school districts and many other agencies of government do when bank funds are not so easily available due to the reduction in the growth of bank deposits.

Already the savings and loans in the State exceed the banks in share of time deposits in the marketplace, and yet they hold but a tiny fraction of municipals. Will they come to the rescue of government if banks are squeezed to the point where they can no longer play the role which they play today? Past practice doesn't show such an inclination on their part. Our ability to invest in public securities is important, not only because of its direct impact on the availability of money for government use, but also because the investment which is made by banks and securities which are issued by the State for the purpose of stimulating New Jersey's economy. As you know, the banks of New Jersey - and that certainly includes the particular bank which I represent - have invested willingly and heavily in the securities which have been issued by the New Jersey Economic Development Authority. Here again banks are able to provide capital for such vitally important purposes only to the extent that they are able to acquire that capital in the marketplace. If, by unwise legislation, their ability to accumulate sufficient capital is seriously impaired, the consequences are not hard to imagine. They will affect both government and our economy at large. Any way you add that up, gentlemen, it has to hurt the people of New Jersey. Thank you.

SENATOR WALLWORK: Doesn't your bank make the same amount of profit when you invest in an EDA loan, as you would a regular commercial transaction?

MR. CLANCY: I really could not give you an expert answer on that, Senator, because it is not the area of my expertise. I do know that we are very community oriented both in the urban areas and the suburban areas.

SENATOR WALLWORK: Well, EDA is one of my pet interests, but it is my understanding that the banks don't suffer by making EDA homes because there are tax exempt bonds that are being floated, and that is a better interest rate.

MR. CLANCY: I don't think I am trying to imply that, Senator. Everyone here is aware of the fact that all of the elements of this discussion here are involved in business for profit.

SENATOR WALLWORK: When you say you invest in municipals, also, I am sure you are not doing it because you have an altruistic viewpoint, you certainly must be making money in these investments.

MR. CLANCY: Oh, I am certain we are, Senator; however, we do have an interest in the communities throughout the State. We bid on, I would say, almost every issue that we are aware of that is any debt issue of any local community unit within the State of New Jersey.

SENATOR WALLWORK: You don't pay any taxes, then, on that type of investment, do you?

MR. CLANCY: I would think not.

SENATOR WALLWORK: So, you are looking to put your money somewhere where you can make money and reduce your tax---

MR. CLANCY: Yes, but in doing so also help the economy of the State.

SENATOR WALLWORK: Right, you are helping the economy of the State and helping yourself. There is nothing wrong with that. Commercial banks and the savings and loans should make a profit, too.

SENATOR BEDELL: I have no questions. Thank you. Victor Neumark, President of the Crestmont Savings and Loan, Maplewood, New Jersey.

V I C T O R N E U M A R K: Chairman Bedell, Senator Wallwork, Senator Gregorio, before I identify myself, I think I should call your attention to the fact that former Senator Scholz and I, while poles apart, do have something in common. We both have a problem in the spellings of our last names. My name is Victor Neumark; that's Neumark, for the record, with a "u" not a "w".

SENATOR WALLWORK: That is the German spelling, right?

MR. NEUMARK: Yes, Freddie and I are both Dutchmen. I am President of Crestmont Savings and Loan Association of Maplewood, Essex County, New Jersey. We also maintain offices in Union and Morris Counties and in the near future we will have one in Camden County. I would like to submit the following statement for the record.

I respectfully submit the following statement for the record: I respectfully submit the following statement of facts with respect to legislation designated as A-63, which, if enacted into law, will provide checking account powers for savings and loan associations. I invite your attention to a specific situation involving denial of an application by Crestmont for establishment of a branch office in Point Pleasant Beach Borough, Ocean County, New Jersey.

In this matter, the Commissioner of Banking determined there was need for an office of one thrift institution but not two, and was therefore faced with making a decision as to whether Crestmont's application or the application of Provident Savings Bank should be approved. Ultimately, Provident received approval, and Crestmont was denied. This in itself is not too unusual or startling. However, it does dramatically call attention to the need for savings and loan associations to have checking account powers as evidenced by the attached copy of the Commissioner's decision and order. I specifically call your attention to the underscored portion on page eight of the decision and order which states in part "Second Reason, under the laws of New Jersey, savings banks are empowered to accept demand deposits." This particular wording reflects a key point in the Commissioner's decision in favor of Provident Savings Bank.

I do not contest the Commissioner's thinking in this matter, nor do I reflect adversely on the checking account powers of savings banks. I do, however, point out a situation where a savings and loan association was put at a great disadvantage because of its lack of checking account authorities.

Also attached to this statement are copies of news articles that appeared in the Newark Star-Ledger enlarging on the situation described above. There are, of course, other compelling reasons for passage of A-63 but I sincerely believe the experience of Crestmont in this branch office matter is very specific and meaningful.

If I may, gentlemen, I would like to take one moment here to read a portion of the article that did appear in the Newark Ledger on March 20, because I think it is very germane to the subject we have at hand. The headline is, "Savings and Loans deplore decision for Shore savings bank. A decision by the State Banking Department denying a branch office in Point Pleasant Beach to a savings and loan association while approving one there for a savings bank has caused a stir in the State's S and L industry.

"What bothers the S and L's is the decision by acting State Banking Commissioner Roger F. Wagner favoring the Provident Savings Bank of Jersey City over the Crestmont Savings and Loan of Maplewood, chiefly on the grounds that as a savings bank the Provident branch could provide customers with checking accounts and consumer loans whereas Crestmont as an S and L does not have such powers.

"Wagner yesterday indicated sympathy for the plight of the S and L's by revealing that he is ready to support legislation to grant the associations, both checking account and consumer lending rights.

"I can see no reason why savings banks should have these powers while they are denied to savings and loans,' he said. 'They both serve the same sector of our State economy, namely, the family and the financial services they require.'

"A spokesman" - who was me - "for Crestmont said yesterday, if demand deposit and loan capabilities are to be decisive considerations, the Legislature should move quickly and affirmatively to grant us such powers. If these powers are to be the salient point on which to determine branches for savings banks versus savings associations, the latter type are at a serious disadvantage both as to new branches, and in opposing savings banks seeking to enter established S and L trade areas."

In addition, however, I should point out that in an earlier attempt to secure checking account powers the association I represent received many unsolicited comments from our savings depositors complimenting the association for its efforts to provide this service and convenience. There is a need, and in fact a demand, for this tool of the trade among our customers. The recently authorized automatic transfer system authorized for commercial and savings banks will place savings and loan associations at an even greater competitive disadvantage. In addition, without checking account capabilities, savings associations have not been able to attract funds in any meaningful amounts from the direct deposit program for social security payments and similar type programs.

Commercial bankers consistently attempt to distort the situation by citing tax and savings interest rate differentials between the two types of institutions. They conveniently overlook tax exempt investment advantages, which you just commented on two minutes ago, Senator Wallwork, so as to reduce to a minimum- whereas savings associations invest-the bulk of their funds in long-term housing loans where experience in the past has shown the need for the building up of tax free loss reserves.

I would like to depart from my statement, for a moment, to point out there has been some confusion here today as to the terminology of reserves. I think the commercial bankers don't understand our business or some of our terminology. When

they talk about reserves, they are talking about actual cash reserves that must be posted with the Federal Reserve Bank against their demand and time accounts. We have to maintain certain cash and liquid assets. We call it liquidity. So, in a rather rough, but competitive way, when they are talking about reserves we talk about liquidity. When they talk about their reserves, our reserves are bookkeeping reserves. They are retained earnings built up over the years, and that makes up the strength of a savings association. They are retained earnings to build up, so that when we do hit the tough times, which we have had off and on, or severe difficult economic situations, we have some place to charge the losses to and keep in business. So, I wanted to make that clear for the record. Our commercial banking friends do not, I think, quite understand reserves as it applies to savings and loan associations.

The savings interest rate differential - and it has been pointed out many times today - administered by federal authorities permitting thrift institutions to pay one quarter percent more than commercial banks is completely unrelated to checking account powers, although commercial bankers attempt to equate the two. Savings associations will continue to be the principle provider of home loan funds with or without checking account powers. I appreciate the opportunity to present my thoughts on the subject matter before the Committee. I truly believe the adverse decision concerning the branch application related herein stands out loud and clear as a very basic reason for passage of A-63. Thank you very much.

SENATOR WALLWORK: How many other turndowns has Crestmont had where they have made an application for a branch?

MR. NEUMARK: We have had none. We have not had that many, actually.

SENATOR WALLWORK: And I wonder, how many savings and loans have made application, and how many turndowns there have been?

MR. NEUMARK: For citing that particular reason?

SENATOR WALLWORK: Yes.

MR. NEUMARK: I really wouldn't know. One situation alone proves a point. Here was a critical reason why we were denied the application, and we don't dispute it. The Commissioner was right in denying us and approving the savings bank.

SENATOR WALLWORK: I don't minimize the point you are making, but I guess there must be 1200 savings and loan branches around the State. How many, roughly, would there be?

MR. NEUMARK: Approximately about 800.

SENATOR WALLWORK: So, it may not be feasible to move into a given area. You may not get enough return on your investment moving into an area.

MR. NEUMARK: The point is, Senator, the Commissioner said our application was a good one; we would be successful and the savings bank would be successful. But, if we both went in, one of them might not or both of them might not be successful. He had to make a decision and give it to one, and he gave it to the bank because they could offer checking accounts, and we could not.

SENATOR BEDELL: Thank you very much. Mr. Al Griffith, New Jersey Bankers Association.

A L F R E D H. G R I F F I T H: Thank you very much, Senator Bedell, Senator Gregorio and Senator Wallwork, for listening to all of our thoughts today. I am Alfred H. Griffith. I am the Governmental Relations Director for the New Jersey Banker's Association, and that is the principle hat that I would like to wear presenting some thoughts this afternoon. I also am Mayor of Bridgewater Township, a Somerset County community of 33,000 people with a \$6 million municipal budget, a municipality

which has the benefit of the services of commercial banks. But I am not going to wear that hat at this particular point. I really don't feel it is appropriate. I would like to just share a few thoughts with you regarding the testimony that has been presented, and, hopefully, present the situation as clearly as I can.

I have various exhibits that I would like to give to the members of the Committee and perhaps I can do that when I have finished. The exhibits graphically point out the comparison of growth in the time deposit area between savings and loan associations and banks, which was referenced before, the share of total deposits, the taxation, the financial institutions in New Jersey, comparing the S and L's and the banks. I would like to present something here that is probably most telling, and I think many of the bankers who came forward today stressed it, and I can't help but stress it more, and that is, do you think this is fair play? We pay one quarter percent more, and we have taken some advertisements that have been submitted by the S and L's across the State that have treaded very highly on this quarter percent advantage. While they present themselves today in such a way as indicating it is really not that significant, there are other considerations that are much more significant in that advantage. Their advertising certainly doesn't tell you that. You can see the major emphasis by the comparison of them and us.

The principle thrust of the S and L presentation over the Assembly side centered around the need to have checking to properly meet the needs of their customers, their 3 million and 3.5 million and now 4 million customers. It was convenience that we heard principally when the question was directed about whether this had any impact on mortgages; I am not so sure that I necessarily saw a relationship in the commentary. But, regardless, today we have been bombarded with comments that if the savings and loan associations are unable to offer checking, then there will be an adverse mortgage money impact. I am hearing that loud and strong today. I am also hearing loud and strong today the potential for outflow. I heard Senator Maressa talk before about it. I heard the gentleman from the Trenton S and L talk about money going out of his bank, and this is certainly surprising, in light, again, of the traditional and consistent pattern of S and L growth. In fact, it was very obvious reading the full page add which Mr. Rosner put out last week which made mention of the fact that the savings and loans were growing beyond the wildest expectations of the commercial bankers. Mr. Rosner is absolutely true in what he says from what the statistics show us.

So, it is surprising that today at a hearing all of a sudden we are beginning to get comments that there are outflows. After hearing these types of comments, I am not so sure, perhaps, that those outflows are necessarily a result of commercial banks being involved in the automatic transfer business. However, perhaps, if you read between the lines, that is what you are supposed to assume from the testimony today. I would like to share with you a statement that was made by Gordon Luce, the President of the California Savings and Loan League which was offered in the American Banker. He said, "Automatic transfer services by banks will not have any 'significant impact' on the ability of California Savings and Loan Associations to attract and retain savings deposits." Claiming that some banks are targeting their ATS advertising to bring about saving outflows from S and L's, Mr. Luce said he did not believe that advertising would be effective, because S and L customers are "sophisticated enough to know the real bottom line that the consumer oriented savings and loans pay more savings interest than any bank could pay." So, he makes light of the automatic transfer system, and it may very well be that ATS

will be priced in such a way in New Jersey that a small number of people will be the beneficiary and it may well be the people that have the high balanced accounts. Now, perhaps, Mr. Luce may not necessarily speak for the S and L's in New Jersey, but this is the point of view that has been well advertised in the media.

I also heard commentary today from representatives of the Savings and Loans. There was a representative from the Home Loan Bank Board, which is unlike the Federal Reserve, the FDIC, and the comptroller. The Federal Home Loan Bank Board statutorily is permitted to be an advocate for the savings and loan associations, which is another disadvantage, I guess, because we met with the Federal Reserve on Friday in New York, and we asked Mr. Volker, the President of the New York Fed. and Tom Sloan, one of their Vice Presidents, whether the Federal Reserve should not see itself as being an advocate for the commercial banks in light of the disadvantages that even the Federal Reserve at times indicates. Mr. Volker's opinion was that the Federal Reserve's principle responsibility is to see that the country has good economic well-being and if that supersedes at times the interest of a bank, then that has to be the case.

But, again, the Home Loan Bank Board does have the power of advocacy according to statute, and, yet, the representative of the Home Loan Bank Board indicated that there was an increase in mortgage money since the savings and loans were in the checking business, presumably, I guess, in New York. The representative from the Columbia Savings and Loans in New York also talked about an increase in mortgage money, and that is fine, but where did that money come from? It had to come from somewhere, and it didn't come out of the air, that increased amount of money in mortgages. And, perhaps, the very source of it may be the banks, just as it has been traditionally. So, as the new service takes place and as the savings and loan associations have an opportunity not only perhaps to provide a benefit to their own customers, but perhaps more readily to bank customers who have the same interest rate advantage, we may very well see the potential for less deposits within our commercial banks impacting people. I feel that probably most of our witnesses today pretty well indicated how banks, either directly or indirectly, are uniquely involved in the business area providing loans for businesses, loans for business expansion. The banks really indirectly help all types of people. Without business loans and business expansion there wouldn't be jobs. If there weren't jobs, there wouldn't be money to buy homes. Perhaps, the thrust of the whole argument differential in Washington when we were involved in the interest rate control act discussion was the justification that perhaps housing is more important than any other kind of need that people have. We tried very hard at that place, and today here too, to give justification for money to provide low rate municipal interest so that taxes can be less, so the people can remain in their communities because of a lower interest, or lower tax rate.

Contributions to Mom and Pop businesses, contributions to people who are involved in the home construction industry who need the materials to build the homes, the road construction industries to build roads to make those homes accessible, all those enterprises that directly or indirectly impact on housing need just as much of an opportunity to have funds available as housing itself, and somehow we have come to the conclusion that housing is the golden goose, and everything else should be second rate. What we are asking you to do is to consider the potential for less deposit growth within banks - and as a result, perhaps less opportunities to provide other kinds of people needs that are important.

In conclusion, I would just like to thank you for having such an open mind today. In the short time that I have worked with the Bankers Association, since February, this has been a very open minded, and very positive and fine Committee that I have had an opportunity and pleasure to work with. Thank you.

SENATOR BEDELL: Thank you, Mr. Griffith. Mr. William Lacey, Vice President, Division Manager, Northeast Regional Mortgage Guaranty Insurance Corporation, Philadelphia, Pennsylvania.

W I L L I A M L A C E Y: Thank you, Mr. Chairman, Senators. I am with Mortgage Guaranty Insurance Corporation. I live in Cherry Hill, New Jersey. My company is the largest and the first private mortgage insurance company. We insure conventional loans, private enterprise alternatives to FHA and VA insurance. Over the past twenty years MGIC has made home ownership possible for over two million Americans with downpayments on those loans as little as 5%. Presently, we have \$36.8 billion of insurance in force \$941 million is in New Jersey.

I am not an expert on checking accounts, and the impact of this service on the competitive balance between savings and loan associations and commercial banks. However, I am experienced and knowledgeable on the housing market in New Jersey, and the contribution New Jersey savings and loans make to this state's housing industry.

My company insures mortgages which have downpayments as low as 5%. The great majority of the home buyers are first-time buyers. While the properties are generally older, and in established neighborhoods, I have submitted with my statement a profile of the loans that we have insured in New Jersey compared to the nation. It highlights that our median sales price here in New Jersey is \$43,000. The loans that we have insured the month of July of this year are higher than the national median which is \$40,000. So, prices are higher. Monthly income of the buyer was slightly higher. Most important, I think, is the fact that the property age in New Jersey is fifteen years as compared to the national median of eleven years. We have an older housing stock. The borrower's median age is thirty years.

As housing inflation continues and more and more households are formed, both young and old, MGIC's type of financing becomes more important to New Jersey. Also, housing in New Jersey not only provides a social good, it is a significant economic value to our State. We have already heard about that today. According to the National Association of Home Builders, the construction of a single home can provide eighteen months of employment for a single person, or a full week of work for seventy-eight people. As a citizen, I am concerned about any government action or lack of action which would adversely affect the ability of savings and loans to retain deposits.

I am not suggesting that savings and loans would or should be able to use short-term checking accounts to lend long-term on home mortgages. The essence of my statement, the point I want to make today, is that my concern is that savings and loans will lose passbook and savings certificates when customers were looking for a full service financial institution. Convenience is of great value in our State, a state which is very densely populated, and that is the essence.

At the same time, it is important to recognize and acknowledge the fact that there are commercial banks who are active home mortgage lenders, and they are to be complimented on providing that service to their community. Many of these commercial banks wisely use their home or its lending powers to cross other financial services such as checking accounts. However, the fact is that savings and loans do specialize in home mortgage lending in this State, and if they are placed at a

competitive disadvantage, potential home buyers in New Jersey will suffer. I have also submitted with my statement the distribution of the loans that we have insured in New Jersey since 1975 by lender group, and it highlights the fact that in 1978, 68% of the loans that we insured came from savings and loans; 21% came from mortgage bankers; 8% came from commercial banks. Commercial banks in 1977 contributed 11% of the volume that we received from New Jersey, whereas savings and loans hit 63%.

In conclusion, as a concerned citizen of New Jersey, and a home mortgage finance specialist, I ask you to do all in your power to give savings and loans the privilege to compete for consumer's deposits in order to support low downpayment home financing in our State. Thank you.

SENATOR BEDELL: Thank you, Mr. Lacey. Mr. Vic Clark, Vice President, United Counties Trust, Springfield, New Jersey.

V I C T O R C L A R K: Senators, thank you very much for letting me express my thoughts on A-63. I have not prepared a written statement, so I won't bore you with reading, I will just talk at liberty. I would like to point out the problems that the small banks will have if A-63 is put into effect.

Number one, we are different than the savings and loans. There is no question about that. We serve two different purposes. Privileges were granted to S and L's in order to build up and foster the home building industry. We acknowledge that they are doing a very good job concerning this. However, we attract two different type people. They attract those who are rate conscious; we attract those who go for the convenience of one-stop banking. We have savings accounts, and they continue to grow slightly, not at the same rate, because as someone's savings account increases, we see that they then are withdrawing to put into the S and L's for the higher interest rate. This is proven by our average savings account, compared to their average savings account - 1700 to 3700, I believe the figures were.

We compete with them to attract deposits and retain deposits. I have heard reference to the rate differential as not being important. Someone earlier testified that location was the first thought as to why they attracted so many deposits. We are in the same locations as they are. In many places they are right next door or across the street. Why are we there? Because these were the economic centers of the individual towns and so forth, and as people look to put up financial institutions, these were the corners and locations that were picked. So, we are in the same locations that they are. I contend that the basic situation is the rate differential which attracts deposits to them. How can they pay more? This is where we can get into our unfair situation. The reserves, the taxes, and the fact they can pay more is where we get into our unfair situation. The reserves, the taxes and the fact that they can pay more attracts money. They can earn money on their reserves; we cannot. We have a tax differential. The problem of small banks, you gentlemen know, because the legislation was before you. When banks were put on a corporate tax basis, the smaller banks still had to pay the bank stock tax, even though they were not earning the money. And this prevents a bank from paying a lot of money. There has been a question raised about why some banks are not paying the maximum rate. Frankly, some of the banks can't afford to pay it under these existing conditions.

We attract depositors for the convenience of one-stop banking. We service the community. The independent small banks, I think, will be in jeopardy. If they start to lose additional deposits in order to survive, they will probably look to merges.

You will have organizations that are not community minded. The local municipalities will have trouble obtaining bond anticipation note financing, tax anticipation financing. So, my contention is, this would be very harmful to the smaller banks around the State which serve a purpose and do a very good job in a small community.

Regulations and legislation have severe effects on the economy within the State. Recently, you are starting to see that we can't keep up with "T" bill certificates. The competition is too great. S and L's themselves are cutting back. They have stopped compounding. They are not going for the differential anymore. Several banks have announced it. It was in the Star Ledger this morning. I heard earlier too that the commercial banks were soliciting the data processing services of the bank. I point out to you that this was not being done by the smaller banks around the State, because we looked to the larger banks to service our demand deposits - which are checking accounts.

I urge you to consider what effect this may have on the smaller banks in our State who serve a purpose. Thank you.

SENATOR WALLWORK: You say you are with a small bank.

MR. CLARK: I am now with a medium sized bank, but I have been the Chief Executive Officer of a few small banks. In fact, I have started two brand new banks in this State.

SENATOR WALLWORK: What do you think the impact on the small commercial banks would be with the linked accounts that just started a week or so ago?

MR. CLARK: I notice that you see very few ads or commercials from the smaller banks, because, once again, they are going to feel the crunch, as far as paying this additional expense, while they are stuck with the tax structure that we presently have. When we get into the full corporate tax picture, I think some of the smaller banks will feel a little relief of the pressure. But, as long as the small banks are continuing to pay the same equivalent of the capital stock tax, I think they will have problems paying interest on checking accounts, if that is what it is.

I have been watching this, and every bank has priced their product different from another - some have no free ones, others have free ones, some have flat charges. I don't think you can compare the automatic transfer service to the equivalent of granting checking accounts to savings and loans, because they are two different items completely. Most articles that you read will tell you that the automatic transfer service is not for every depositor. In fact, there was a very interesting article stating that the consumer advocates who were fostering this for the little depositor had the tables turned on them, and it favors the people with larger accounts, because they will get it free and it will be less costly to them. The small depositor really cannot afford to pay the charges that I see most banks are pricing the service at.

Our experience so far in our bank is that they are not beating our door down for this particular service at this time. But, unfortunately, whether we agree with it or not, when competitors have it, we must offer these things to exist. Otherwise we will have more withdrawals.

SENATOR WALLWORK: Are you going to start to offer it?

MR. CLARK: We have it, but we are currently not pushing it at all. And I notice, in talking to other bankers, I find the same reaction.

SENATOR WALLWORK: If A-63 was passed and signed into law, what would that mean to the small commercial banks, in your judgement?

MR. CLARK: As I say, I think they will have a lot more competition which would be an unfair competition that they cannot equal, and I do think they will lose

depositors, because the depositor now who is utilizing a smaller bank because of the one-stop service, the convenience of not having to go to two places, and keep their savings and checking account, will now be able to go to another institution that pays higher and get it. That is the same thing that we have. This is what offsets the commercial from the savings, when it comes to that deposit relationship. I think it should exist in order to keep that differential. If not, then I think everybody should be the same.

SENATOR WALLWORK: Do you think too many small banks have been chartered in this State?

MR. CLARK: Perhaps, but if they are there, we can't do anything about it. Do we just put them out of business, or do we have it so the stockholders--- We have seen a few banks fold in this State, not necessarily for that particular reason, for other reasons, but innocent stockholders have suffered. This, too, could go down the drain. When a small bank starts - and I have gone through this - and after the original incorporators start a bank, the Commissioner will determine how much we must offer to the public. It must then go out to the local people within that community. Sometimes, it is only their life savings that they are putting in the small commercial bank as an investment. It may be the only piece of stock that individual will own, but he feels it is his bank in his community. I have seen this happen; that may be the only piece of stock they will ever own. They can order small quantities at a very low price.

SENATOR WALLWORK: All right, so in your judgement, what is the impact on the small banks?

MR. CLARK: Well, of course, we can't project. I don't have a crystal ball. But, I do have the feeling that it will really seriously hamper the smaller bank to stay in existence and to remain profitable. Some of them are not profitable yet.

SENATOR BEDELL: In regard to the ATS, most banks do it by in-house rules which are promulgated. Is there a minimum amount that must be maintained in a savings account to be eligible?

MR. CLARK: That is strictly house policy.

SENATOR BEDELL: What would the norm be? Can you give me an idea?

MR. CLARK: It ranges all over. There are enticing ranges. Some banks have a flat monthly charge for the service. Some banks say if you maintain \$500 it is one charge. If it is below \$500 it is another charge. Some have no minimum. Our bank has no minimum to have the service. We have a monthly maintenance charge, and then so much either for a transfer or check charge. I have been plotting them, and they range all over the place. Everybody did their own pricing, and because everybody came out announcing at the same time, people didn't have a chance to wait and see one announcement at a time. So, they are really not similar in each bank. I think it is a good thing, because it may be the first time in our industry that we really have tried to do our own pricing as to cost of providing service, and it is an expensive service to handle internally - aside from the fact that you are paying interest on money that you didn't pay for before.

SENATOR BEDELL: Right. Thank you very much. Mr. Robert Foury, President, New Jersey Bankers Association.

R O B E R T F O U R Y: Thank you. As you indicated, I am Bob Foury, President of the New Jersey Bankers Association. I have a prepared statement, but in the interest of time, I will file it and help sweep up with one or two points that have

occurred to us. We noticed that Mr. Lawlor's material that he has filed with you today contains a rather strange list of 88 powers of commercial banks, and indicated some of those are powers of State chartered banks. We would like to file with you a counter-statement indicating some of the inaccuracies and inadequacies of that list.

Just one, for example, it really doesn't mention the main power of the immeasurable competitive advantage that we have talked about here today, and that is the power to pay interest, to pay interest of a quarter to a half percent more than banks on various levels of passbooks and various certificates of deposit. But, just one other example indicates sort of the unusualness of the list. Item 63 of the 88 indicates that our banks can actually purchase common stock. That is not true. As a matter of fact, ironically, the shoe is probably on the other foot. Through the Suburban Savings and Loan case, they have turned the sort of power given to them by this legislature some years ago into the statement that they have any investment power the savings bank has, and the savings banks, under the law, do have the power to invest in common stocks. So, this list does indicate powers we have that we don't, and by extension of a court decision, it looks like they probably really do have the power they say we have.

In another area, Mr. O'Brien's substitute who was here today mentioned some levels of rates paid on savings. Upon questioning, he indicated that he received the statistics from the League. And we have seen those too. But they don't indicate their source. We checked this out, and I would like, for the record, to indicate Federal Deposit Insurance Corporation in January, 1978, statistics indicate that the S and L's have understated the number of banks at maximum rates by 10%. And the Federal Home Loan Bank Board figures of September, 1977, would indicate they overstated the S and L's paying the maximum rates by 4%. This really isn't as important as who is doing it. We have already indicated - in fact, I can see the little brochure right there indicating that City Federal, the largest savings and loan in the State, which just bragged yesterday that they gained 20% deposits in the last nine months to a new record total of \$1.2 billion, does not pay the ceiling.

Senator Wallwork, you had asked that question relating to dollars. We don't know the answer. As a matter of fact, the statistics are pretty silly when you come right down to it, because the data that is reported is based only on a sample. The figures we are giving you on the banks are just a sample of 26 banks that the FDIC and the Federal Reserve do once a year. So, we make the point that those who are paying the maximum should not be the point. The point being made is, the right to compete. That is what I want to emphasize.

I would just like to finish up with a little comment on that subject. It was unfortunate that Mr. Messina, the savings and loan man from New York wasn't aware or couldn't recall that tax picture in New York, because in fact New York Savings and Loans are taxed by the State of New York on an identical base as the commercial banks. There is one difference, and that only difference is that they have an alternate minimum tax on savings and loans in that State. Through the computation of the ordinary corporation tax, it falls upon both banks and savings and loans; it is too low in the savings and loan area. It is my understanding that they have an alternate minimum tax based on their deposit levels. But, except for that minimum tax, their taxation in New York is identical with that of commercial banks, and, of course, that is one of the very points that we are thinking about and want to make.

The proponents of A-63 do try to fog the issue of state taxes by talking

about federal tax levies. On Federal matters, we could probably take a page from their book. Both Senator Maressa and Mr. Lawlor mentioned it when they talked about Reg. "Q". They said, "Wait a minute, that is Washington; that is Congress; that is not our responsibility. Let's stick to the State of New Jersey." And, we might say that same thing. We might also repeat our public offer to help the savings and loans get federal taxation as well as state taxation just like banks. That appeared in the Newark Star Ledger in August of 1977. We stated that before the Assembly Committee, and we state that again for the Senate Committee. We would be delighted to work with them to be taxed identically with the banks at both the State and Federal level. They have not taken us up on that offer. Of course, they won't. But, again, it is in the State of New Jersey where the tax differential is so shocking. Last year our banks paid \$30.8 million in State taxes; the S and L's paid \$2 million. Their tax is really so low that the State Division of Taxation in its annual report just throws the savings and loans and the savings banks together under the savings institution tax. They have 68% of our bank assets, and they pay only 7% of the taxes the banks pay to the State. They are not even subject to the business-personal property tax which banks and other corporations are.

The claim is that the Legislature gave the S and L's their special favoritism on State taxes, and, most recently, in 1973 because of their limitation to savings and mortgages. But, today they already have millions of dollars in automobile loans, not housing. The Suburban case I referred to is an example. Today, they can charge up to 15% interest on all modernization loans, and banks are at a 12% ceiling under the banking law. Now, they want checking accounts. We just feel it is time that our New Jersey citizens stopped subsidizing the savings and loans, and we do have State tax equality. Before the S and L's move into any banking and checking accounts, they should pay their share of New Jersey taxes, like our New Jersey banks and like all other corporations do.

Bill Assembly 900 would do this, and it should be made mandatory under A-63. We point out that we are for equality and fairness. We are not opposing their powers. We just think we should be on an equal playing field.

Incidentally, in addition, you may know half of the bank's corporation business taxes are distributed through the counties and municipalities to help reduce the real property tax burden. Last year \$14.4 million in bank taxes went back to local government, county and municipal. So, a fair and equal tax on S and L's by New Jersey could help our local governments too. Paying a fair New Jersey tax would reduce the S and L's federal taxes. Every time it is paid on the State level, it serves as a deduction against federal taxes. Therefore, increasing state taxation of these institutions would keep state revenues in New Jersey and out of the Sun Belt States.

Just in fairness to New Jersey citizens, we feel savings and loans should get no further expansion powers until they pay their share of State taxes, and reports from the State Government indicate it might also help our State budget shortfall as well. Thank you very much.

SENATOR BEDELL: Mr. Foury, hypothetically, if it were the decision of the Legislature to tax both entities on an equal basis, and in this case, raising the impost bond on the savings and loans to the degree that the commercials pay, do you have any idea what we would be talking about in dollars?

MR. FOURY: It is an interesting problem, because in spite of what they say about Federal taxes, they have an extremely favorable bad debt reserve formula.

They keep saying somewhere around 82% to 84% of their money - I am not sure which - has to be in mortgage loans. I doesn't have to be there. It only has to be there to get the full benefit of the bad debt deduction against federal tax. So, this is a figure that can vary. The point I am trying to make is, if you put them under our State tax, and I think the Division of Taxation is aware of this, the key thing is what bad debt reserve formula do they use. If they are allowed to use the extremely beneficial federal formula, then the tax revenue to the State is less than if they were required to use for state tax purposes the bad debt formula that is imposed upon our banks. So, depending which formula you take, it can vary by half, so it could be as high as eight to ten million dollars in new revenues. If you use the bank's bad debt formula, in other words, if you made it really equal, it probably would be as low as half of that, four or five million, if you let them have the preferential treatment continue both at the federal and state level.

These are ballpark figures, and I am sure the Division of Taxation would be more accurate.

SENATOR BEDELL: Mr. Foury, I have asked this question before, and I don't mean to limit these areas just to try to get the Committee's attention riveted to specific areas, but when you talked about establishing the equity between the savings and loans and commercial banks, were you essentially talking about state taxes, revenue reserves, and interest on savings? I would assume there are other areas.

MR. FOURY: Yes, I think they are the primary ones. This isn't equity among institutions, and actually Mr. Walters saved a substantial part of my testimony by introducing a number of points, one of them was the matter of charging interest on interest. There are things in the savings and loan act and the very section of the savings and loan act which A-63 amends that are anti-consumer in nature, but I wouldn't look upon them as being competitive between institutions, except in an indirect way that interest on interest and interest in advance does give those institutions a unique right to collect a higher net income than do all other mortgage lenders in the State. But, that is one, but it is probably more of interest to the consumer groups than it would be to the competitive picture.

SENATOR WALLWORK: Under A-900 where you projected the tax equity would be four and five of eight to ten million dollars, that isn't a straight line deduction, however, from the federal tax.

MR. FOURY: Oh, right, I don't know what the new law is. Is it 50%, 48% or 45%? I think it is something in that range.

SENATOR WALLWORK: So, it would lower your exposure about half?

MR. FOURY: Right. Incidentally, another factor that would lower it would be if they would get active in EDA loans or municipal security purchase. You indicated your interest in EDA. When a bank takes EDA securities supporting such a loan, the beneficiary is the borrower, not the bank. In other words, in this particular transaction, the bank's revenue is free of taxation at the Federal level, and understates the bank's federal taxes. The bank is not the beneficiary of that difference, the borrower is.

SENATOR WALLWORK: The bank doesn't lose anything.

MR. FOURY: Of course not, but it understates the bank's federal tax.

SENATOR WALLWORK: And the State too.

MR. FOURY: No, no they are taxable at the State level; both EDA and municipal securities are taxed banks at the State level. Incidentally, that is an interesting point you raised. It is not done for savings and loan associations. The

savings and loan associations, their holding and municipals are actually free of taxation under the Savings Institution Tax Act, but under the corporation business tax, the banks pay tax on those revenues. That is another difference.

SENATOR WALLWORK: You made the point that you want the right to compete. But, if you are not using the maximum 5%, and a lot of the banks are using 4 1/4% or 4 1/2%, why all the hullabaloo over the difference in one-quarter of one percent if you are not up to 5%? I mean, if you were at 5% and straining to get the 5 1/2% or 5 1/4% it would be a little different.

MR. FOURY: There are a lot of answers for that. The first one is, you know, you have to match up. The bank not at the max. might be competing with a savings and loan that is not up to max. too. I don't know whether that is true or not, but we keep talking about passbook rates. There is a whole range of rates. All these certificate of deposit rates--- I saw some figures that were very interesting to me from the Federal Loan Bank Board that indicate that a massive amount of these savings and loan deposits are really in longer term instruments, not passbook at all. So, when you go on out two years or four years, the difference is a half a percent. But from one to two and a half years, I think that is the rate of the differential there, a full half a percent; that is the area where people are interested. No one wants to tie their money up for eight to ten years, although they have a differential on ten-year money, too. But it is a whole range of certificates.

Now, when you get into the "T" bill certificates, the brand new thing to allow the financial institutions in this country to be competitive with the government bond rates, what happens, the federal authority says banks, and they match the "T" bill rate. You don't have this intermediation whereby money does not go out of the banks and into government bonds, and interest rates go up. So, what else do they do? They say savings and loans get one-quarter over the "T" bill rate. So, we compete, and we compete still at the one-quarter of one percent disadvantage. These are \$10,000 amounts. And the other certificates are in smaller amounts, whatever the institution has asked it to be. This is with the little guy. The only place we can compete is with the big fellow, with the \$100,000 and higher certificates. There the ceilings are off and the market prevails. This is an indication of why we are so frustrated with this lack of equality, and it is the reason why they are growing at a 66% higher rate than we are on deposits. This is pure and simple. They have the rate to compete at a higher rate of interest.

SENATOR WALLWORK: Well, do the commercial banks have the ability to earn more on their investments because of their right of diversification as compared with the savings and loans which are pretty much giving most of their money available in home mortgages?

MR. FOURY: Well, that brings up an interesting point. When you are comparing banks and savings and loans - as Mr. Neumark mentioned, the name isn't the same. We talk about reserves and they really are reserves; they talk about reserves, and they are something else. And, incidentally, we also retain earnings under profits, which is another category that matches against - as I identified it - what he was calling reserves. The differences are big ones. They say they have 85% of their money in mortgage loans. Then we look at the Banking Department statistics and they show that one portion of mortgage loans is mortgage backed securities. One savings and loan that we looked at - Investors Savings and Loan - and 25% of their total mortgage loans were in mortgage backed securities. We are trying to find out what

that is. It doesn't sound like a mortgage to me. And we---

SENATOR WALLWORK: Mortgage backed security?

MR. FOURY: That's right; that is part of this statistic that we speak of when we talk about mortgage loans. The only thing we have been able to identify so far is something called the Gennie Mae. Now, with a commercial bank a Gennie Mae is a security. It is an investment; it is an investment in a government agency security, and it falls into the security part of the portfolio, apparently, a part of that same kind of investment the S and L's are counting as part of their mortgage loan. So, we have a problem with definitions, we really do. So far as your specific question, I honestly don't feel competent to answer that. I am not a money-desk man in a bank. I think Lou Bauman did a pretty good job of outlining the net return on various departmental income and investments, and if you would like, we could probably ask several of our banks to give you that kind of a figure of a return by departments.

SENATOR WALLWORK: Well, what I would be interested in, really, is does A-63 threaten the lifeblood, or the ability, of the commercial bank to make a legitimate profit?

MR. FOURY: Well, there are lots of commercial banks. I think a number of savings and loan men here today made the point that they are not going to live or die whether they get the checking account, or not. They will go on; they will make their mortgage loans. And, I think that testimony was actually given before the Committee.

At any rate, it is not a life or death situation, but clearly there are different institutions that constitute it differently. Some savings and loans operate a lot differently than others - and they can talk about that better than I. Banks are a lot different. The large urban center or city banks are much more commercial banks. Many of our banks are basically savings banks with a small commercial department. They are much more like the savings institution - 80% of their deposits, or 70% in savings, 20% to 30% on commercial, very little commercial business, highly retail oriented. Our Chairman, Tony Shellborough, his bank, while it is over a \$400 million bank is essentially a retail bank for the individual customer. That is the institution that would be harmed a great deal by having--- You see, so far it has been a Chinese standoff; they have the higher rate and we have the checking account. If you put the checking account with a higher rate, what possible incentive would a person have to stay with a commercial bank. They get a higher rate of return and have a checking account in an institution that is basically serving the retail market. We feel this would be disasterous without equal taxation, without equal rates on the time side.

SENATOR WALLWORK: One other question, so far as the three and a half or four million customers that the savings and loans have, what would your point be so far as these people not having the accessibility, as was mentioned by some of our earlier speakers, older citizens, and people of that nature, who don't have the mobility and therefore don't have this ready access to their savings.

MR. FOURY: I appreciate your question, Senator, because we have called this four million figure people, customers, and I think they are really accounts. In other words, to the extent that one of these men may have a savings account and a golden savings account, and a CD, he is three different people, and in fact, the four million is not persons, the four million is accounts. That is the way statistics are prepared, and we have the same kinds of statistics, and interestingly enough we

have 4.1 million accounts, savings accounts and certificates in our banks. I would counter by saying, how about those poor 4.1 million people who are being denied the right to competitive rate of interest on their money. Why are the customers in the savings and loan in the first place? Well, probably at least half of them are there because they got a higher rate than they got at the bank where they have their checking account.

What we are saying is, make it equal. Let's compete on an equal playing field. Right now they have the rate, and we have the checking account. They want the rate and the checking account and that will leave us with a lower rate, and still the checking account service. We don't think that is fair.

SENATOR WALLWORK: Subject to the possibility of discrimination and all this type of thing, would it be a feasible program just to grant checking authority to savings and loans for senior citizens?

MR. FOURY: Either that or induce the Congress to grant a higher ceiling on savings by commercial banks for their senior citizens. This is an interesting point. I don't know that anybody has any real demographic studies on this, but we tend to think that most of the old folks are with us. They have the hot money, and we have the solid citizens who have been with us for years.

SENATOR WALLWORK: I want to ask you what you mean by hot money.

MR. FOURY: Hot money is the money that seeks the highest return, and that ties into this intermediation. When the government bond rate goes past what financial institutions are willing or able to pay, the money goes there. The person looking for the highest return he can get on a given date will go there. I think that is really one of the main problems of the savings and loan associations. They have advertised rates so hard so long that they have attracted the hot money, and that is why they are more susceptible to this intermediation than our banks are. I am not an economist; I am just philosophizing.

SENATOR BEDELL: Thank you. Mr. Thomas Jamieson, Counsel, New Jersey Bankers Association.

SENATOR WALLWORK: We might want to have a rebuttal from someone from the savings and loan associations as a wrap up witness.

T H O M A S E. J A M I E S O N: Senator Wallwork and Senator Bedell, I thank you for an opportunity to appear here today. For the record, my name is Thomas E. Jamieson, Jr. I am Counsel for the New Jersey Bankers Association. I do not have a prepared statement. My remarks should not take more than an hour or so, but I will try and cut them down to about three minutes, because there really are only a couple points I would like to make.

There has been some discussion - as a matter of fact, there has been a great deal of discussion all day - about the word competition, and the word competition has conservatively been used a thousand times today. Towards the latter part of this afternoon, there was some reference to decisions being made as to expansion of savings and loan association facilities or banking facilities, and decisions being made by the Department of Banking with respect to that expansion. I thought if I could take just a moment of your time, I would like to read a small extract from an opinion by the Commissioner of Banking which I think at least sheds some light on the question of competition. I am reading from a decision by Commissioner Bianci which is dated June 26, 1978, in connection with the application of a state chartered commercial bank to establish a branch in a community in Ocean County. After a review of the situation in that particular community - that is, a

review of the evidence presented, where the Commissioner identified the trade area, and identified the other institutions which were offering financial services in the community, the Commissioner in his opinion addressed what he referred to as the final criterion to be addressed which is "the public interest." Parenthetically, at this point he is now addressing himself to the question of would the proposed branch bank in fact further the public interest.

He comments as follows: "If the applicant attracted those deposit levels found reasonable herein, it"- meaning the applicant - "would be attracting the major portion of commercial bank deposit growth available to all commercial bank competitors. This would cause a static, no growth, commercial banking situation for the existing competitors, whose only option would be to cut services and rates to preserve their current earning positions to the ultimate detriment of the public."

Now, it isn't my purpose to discuss the merits of that decision, but I did think it was meaningful to point out to the Committee - as I am sure you are aware - that where there is an interference with the deposit relationships as they exist in any given community, you have a changing of the balance in that community, and at least in this particular case, the Commissioner of Banking found that such an interference with the deposit relationships then existing would, in the last analysis, be ultimately detrimental to the public.

It seems to me, as I have listened to a lot of the dialogue here today, that the basic point being advanced by the savings and loan associations is that this bill, Assembly Bill 63, should be enacted into law immediately, urgently, because of what they perceive to be the fear of future competition from other institutions as a result of recent changes in the law from the regulators as well as Congress. In other words, what they are talking about is a fear of the loss of deposits which they now have, meaning those deposits would flow into their competitors, specifically the commercial banks. That is what I have listened to for most of today.

It seems to me quite clear that they are not talking about competition in the past and the past record establishing that they need this legislation today, because there seems to be little dispute that over recent years the relative deposit increase, or the rate of increase of the thrift institutions has been significantly greater than the commercial banks. So, in the past years without checking account powers, the savings and loan associations in New Jersey have been increasing their rate of deposit relative to the commercial banks. Obviously, if there was a static situation, they could not justify this legislation by saying, "We need it now in order to protect our competitive position." They must therefore need, it seems to me, and they have said over and over again, this legislation because of what they perceive to be the intense competition in the future, which they conclude is going to move funds, deposits, out of the savings and loans associations into the commercial banks.

Well, there is a certain irony in that, if you stop to reflect on it, because what they are really talking about is a fear of competition. They are saying, "We, the savings and loan associations, must have additional legislative powers given to us so that we can compete, because if we don't have that, we can't compete fairly." The irony to me, at least, is clear. They are justifying this legislation to you, and urging your support for it on the basis that without it they cannot compete on equal footing with their competitors.

If that really were the case, then it seems to me what they would be saying to you is, we want the same kind of authority that our competitors have, for instance, you have heard over and over again about proposed regulations today from the Federal Home Loan Bank Board, which is going to give Federal Savings and

Loans certain demand deposits or what is called a POA, a payment order account. That is not a checking account. If you read the regulations, it says right there, that is not a checking account. It may not be a checking account. It may not be a negotiable instrument. If what the savings and loan associations state chartered wanted was to be able to compete fairly with the Federal Savings and Loan, then why have they not suggested to this Committee and to this Legislature a legislative proposal that would put them in the same posture with Federal Savings and Loans? I submit that they have not done so, and they wouldn't, because what they are looking for is a much broader based full range of demand deposit services, which their competitors, at least in that situation, the Federal Savings and Loans, do not have and will not have even under the proposed regulations of the Federal Home Loan Bank Board. I use the word "proposed" advisedly because it is proposed. That is a regulation which has been proposed. The comment period for that regulation ends on December 1. And, thereafter, at some point in time, it is anticipated - but by no means certain - that that regulation will be promulgated and become law or at least become an adopted regulation. It is not today.

Secondly, if what the State Savings and Loan Association is really talking about is an equal competitive situation, and that is what they are striving to obtain, because that is what they have said they are striving to obtain, then why have they not proposed legislation to you that would in fact create an equal competitive situation. Why have they not proposed legislation which would equalize the tax impact, which would equalize the reserve situation, which would equalize the kinds of authority and powers that they have with respect to repaid interest, et cetera. I have not heard anyone from the Savings and Loan Association say to you, in the interest of competitive equality, we need this legislation.

I guess, lastly, I would say this: It seems to me that the argument of the State chartered savings and loan associations is to stop a potential drastic flow of funds from the State chartered savings and loans to the commercial banks, all of which is arising from automatic transfer systems, Federal savings and loans, POA's and similar types of competitive situations; they need this legislation. I heard today question after question asking, what is going to be the effect of the ATM's, of the POA's, et cetera, addressed by members of this Committee to those who sat in this chair and addressed you today, and I didn't hear a single concrete answer to that question.

I suggest to the Committee that what we are dealing with here is the admitted realm of speculation. We can speculate - that is, we, the commercial banks - about what the impact will be of savings and loan associations with checking accounts, and the savings and loan associations can speculate as to what the impact will be if they do not have this competitive tool, but it has to be speculation, because there is no answer to it. We do not have any experience to base the answer on. I suggest to the Committee and to the other members of the Legislature that to make this kind of drastic change in the financial community in the State of New Jersey, based on that kind of speculative evidence is not the appropriate way to proceed. I would ask you in effect to say the burden of proof should be in this situation on the savings and loan associations who ask you for an expanded power. The past record shows that they do not need it to maintain their economic viability. Now they say they do need it or they are going to be at a disadvantage economically, and therefore to the detriment of the mortgage industry and the people that they serve. But I have not heard anything concrete to support that. I didn't even hear the economist

from the Federal Home Loan Bank Board of New York say that he had done any study to show what the real impact would be. The burden of proof remains, I think, on the State chartered savings and loans to prove what they say - there is essentially a need for this legislation. I have not heard one scintilla of proof that would support that proposition. Thank you.

SENATOR WALLWORK: I think the other point they made, however, was the consumer aspect of having their customers having checking accounts available. What would be your response there?

MR. JAMIESON: Well, Senator, my response is this, and I have said this before to the Assembly Banking and Insurance Committee, there isn't anyone in this room who can honestly say there would not be some convenience that would be afforded to the present customers of the savings and loan association if they also had a checking account capacity in that association.

That is a fact; it would be more convenient. But it seems to me that it has been just as convenient for many, many years. In spite of the absence of that convenience over the years, the strength and growth of the savings and loan association has been proven again and again, and relative to the commercial banks their growth rate is significantly greater. So, the convenience has not been there in the past, and they have been a viable institution. The reason they have been viable is that people, individuals, have been willing to suffer some inconvenience for the benefit, I submit, of a greater return. All I am saying is, the convenience argument is there, and it can't be disputed. But, has the case been shown that for the sake of offering this convenience to the customers of the savings and loan, it is worth the risk, and I think everyone has to admit that there is some risk, because we don't know the answer. Is it worth the risk to enter into the entire financial community this unbalancing factor, the ultimate effects of which nobody including every speaker for the savings and loan association can predict. Our answer, of course, is, no, it isn't worth that risk.

SENATOR WALLWORK: Well, savings banks have had checking account privileges for how many years?

MEMBER OF THE AUDIENCE: The first one was 1928. It was a Supreme Court decision. It is not in the law. The Supreme Court decision was in '66.

SENATOR WALLWORK: They have had it for many, many years and they pay the same interest rate as savings and loans.

MR. JAMIESON: That's right, but I think the Committee should look at the extent and the size and number of the savings banks in New Jersey compared with the savings and loan associations and the commercial banks. I don't know how many principal offices and branches there are of state chartered savings and loan associations in New Jersey - maybe 500 or 600. I just don't know the number.

SENATOR WALLWORK: I think it is about 600.

MR. LAWLOR: It is about 620, I think.

MR. JAMIESON: You must understand that the day A-63 is signed into law every one of those home offices and branches becomes automatically a competitor for the demand deposits of the commercial bank that may be across the street, assuming they choose to implement. Now, I can't tell you whether they are going to implement it or not. You would certainly think that they would be, based on the urgency with which they are saying that this law is necessary.

SENATOR BEDELL: Thank you. We would like to call upon Mr. Warren Hill, Chairman of the Executive Committee, New Jersey Savings and Loan Association.

WARREN HILL: Senator Bedell, Senator Wallwork, my name is Warren Hill. I am Chairman of the Executive Committee of the New Jersey Savings League. I might also add I am a legal senior citizen, because you have heard some discussion on that.

I would like to sum up rather briefly. We have had a lot of discussion about reserves and a confusion about liquidity and reserves, and I would simply like to call the attention of the Committee to lines 118 through lines 131 of A-63 which I think very clearly spell out the authority of the Commissioner to require reserves against a checking account. It also provides that the Commissioner shall not authorize such types of account unless they maintain general reserves and undivided profits, a Federal Insurance Reserve, in such amounts as he deems adequate. So, the authority is with the Commissioner. The limitation says with respect to the liquidity assets that they show the equal in nature and amount to those required of savings banks in this day against similar accounts.

Mr. Jamieson talked about the DOA account, and there is no question he is right. This is in the form of a proposed regulation, and it is not the same on the surface as a checking account, but it has many similar characteristics, because if you read the explanatory statement put out by the Federal Home Loan Bank Board, they point out if they have a bank transit number of these withdrawal slips they can be negotiated through a bank, and I understand that two banks, at least, offer two different savings and loan associations in New Jersey the transit numbers, or whatever the number is that you put on these checks, so they will have quite a few of the characteristics of a checking account, even though they have a different name of a POA account.

I would like to point out that there has been a great deal of discussion about the difference between commercial banks, savings and loan associations, and there has been very little said about the savings bank. First, I would like to point out exhibit twelve on page 10A of Mr. Lawlor's statement to the Committee. Mr. Foury did find one minor error in it, but there is a minimum of 67 different commercial banking powers that are not available to savings and loan associations. I submit that the major difference between a savings bank and a savings and loan association is not in the deposit structure. The major difference is in the asset structure where they have the opportunity and the viability to make many types of loans and investments, perform many services, which are not legal or authorized by statute or regulation for savings and loan associations, and the one-stop banking has many appeals for many people.

In addition, that has justified Congress for many years of hearings and many years of discussion to arrive at the decision they have with respect to regulation "Q." I think the Committee Chairman, Senator Bedell, expressed the concern of the Committee quite appropriately this morning when he discussed the fact that they were interested in the consumers, but they were not interested in consumers to the extent that you might upset the powers and the economic flow of money as between various types of financial institutions in this State. I suggest that is correct.

I suggest that the commercial bankers are crying wolf very, very quickly because I would point out as a very practical matter that every dollar that is deposited in the savings and loan association is immediately deposited in the commercial bank. That is the way the banking system in this country works. So, the dollars that come into us today are in a commercial bank before the day is over. And it stays right within the banking system of the country.

I have heard many discussions here today about the commercial banks, vis-a-vis, the savings banks. I don't think enough consideration has been given to that, because the savings banks and the savings and loan associations are very close in their financial structure. There are some differences in the legal power that we vary, as night does from day between commercial banks. I think the savings banks have the best of both worlds. I don't hear any protest about that from the commercial banks. Savings banks are subject to the same taxation as savings and loan associations, both state and federal. The savings banks have the quarter percent differential, just as do the savings and loan associations. Savings banks have the checking account powers. This checking account power of the savings banks was not used until recent years, and I think there were a few savings banks that historically in New Jersey had checking accounts but not all of them. Following a Supreme Court decision, savings banks not only all started to issue checking accounts, but they started to use them aggressively. They use them aggressively to promote the services of the branch offices, when the branching was authorized by the Legislature. They are very substantial competitors. I would say they are much more severe competitors of the savings and loan association than we are with the commercial banks, because we are in the same market for the same consumer dollar. We have no facility to handle the businessman and the business account, and as a matter of interest, I would like to see the breakdown of all these deposits that we have been talking about as between what are business and commercial deposits, and what are people deposits - if I can use that term.

Incidentally, as part of my statement, I would like to submit on behalf of Mr. Lawlor a statistical table on savings and the percentage of the savings market which savings and loans have, vis-a-vis, the commercial banks, because we think the commercial banks have been using one statistical base, and the savings and loan statistics were based on the reports of the FDIC, FSLIC, and the Federal Home Loan Bank, and we have detected some differences which show that our percentage of the savings market is not as great as theirs. Mr. Lawlor may care to comment on this at some point in time.

Another point I want to make is, we are running into a tightening or availability of money for the mortgage market. We run into that because prices are high for money. People are using other forms of investment where they can make a higher return than they can get through savings and loan associations, and it hasn't appeared on the scene as yet because this money has tightened very dramatically within the last six weeks. I think we have observed the prime rate going up 150 basis points almost within the last six weeks, but we can begin to see it at the point of impact of our operating people across the customer's counter. On the other hand, we have observed no shortage in the funds for corporate borrowing, and business needs their money, and there is obviously a choice to serve the corporate demands at this time because it is obviously more profitable when the prime rate is quoted at 10 3/4% and the mortgage rate in New Jersey is limited to 9 1/2%. Very obviously, the prudent director, and the prudent trustee of other people's money is going to make the choice to make the corporate loan.

Now, one of the ways this can be eased, and I think the Economist of the Federal Home Loan Bank Board testified to that, as did some others, is if we have more facilities to maintain the funds that we presently have. I think Commissioner Schaub said it very adequately when he said people are creatures of habit with respect to their money. He wasn't too concerned, I gather from his statement, about

losing money because of people having the habit of keeping their same institutions. I think the testimony of the gentleman from Massachusetts and the gentleman from New York, and even the statistics of the savings banks in New Jersey, will show that there has been no great flow of funds in that direction - one from the other.

As I recall, the last time I looked at the record, which is some time ago now, the total demand deposits in the savings banks were about 4% of their total deposits, which is a significant amount, but nothing that would have any effect of destroying the banking system in the State, and the same situation would be quite true with respect to the savings and loan associations in this type of account. This is for the convenience of our people, and it is amazing the number of people that come to us and can't understand why they have to go through all this, walking in with their passbook and their withdrawal ticket in order to get their money if they want to pay their rent or pay an insurance premium, or something of that type.

We have also heard a great deal about parity. I think the savings and loans are all for parity. We have had a great deal of discussion about regulation "Q" which is of great concern to everyone. It is the primary responsibility of the Congress of the United States, which has just enacted "Q". I think the Congress did a very reasonable thing when they enacted "Q" and I think it just signifies other steps down the line. They extended it for a two-year period. They once again went through all the Committee hearings and determined that the savings and loans, because of the restrictions on their financial structure, needed that 1/4% in order to keep the funds flowing for housing. But they did go on and say that anybody who orders this N.O.W. account, or an automatic funds transfer account, these linked accounts, the rates were the same. There could not be any differential. I suspect there is a certain amount of merit. So, in substance, I think the bankers have got their cue point, vis-a-vis this request of the savings and loan associations, for the checking.

I didn't hear anything about the argument for parity in the taxing with respect to the federal income tax. I could point out many things which are available to commercial banks which cut their tax rate way down, but which are not available to savings and loan associations, and make our tax rate quite high. I am curious about one of the statistics that was not explored in any detail, but when somebody was talking about net income, I wondered if that included the tax exempt income that comes from these tax exempt securities. Because, as I recall, looking on a tax return, you just don't mention tax exempt income.

I would like to respond to one detail of Mr. Foury. The figures that Mr. Lawlor used dealing with the rates came from the State Department of Banking and Insurance. In connection with the tax situation, I couldn't help reading about this in the papers. I have two examples of headlines, and I will hold them up for you to read, about the profits rising in all the banks. I am for anybody who makes a profit. I wish the profits were rising in the commercial bank I have some stock in, but it doesn't happen to be. God bless them, but I don't know why. As one guy said to me, this tax argument is something like the broken leg argument. One guy has a broken leg, so the other fellow ought to have a broken leg. But I can say this on the tax issue, gentlemen, we have told the Assembly Taxation Committee that we are willing to once again appear before the Committee and discuss the whole taxation system. I think there were four volumes of transcript the last time the savings institution tax was designed, and the Legislature at that time, supported by the trade association, adopted the first income tax that was adopted in the State of New Jersey. That was because of the peculiar nature of the capital structure of savings and loan associations.

I also notice, and I suspect that commercial banks had something to do with it. They have not talked about it today, but they did talk about A-900, which was another bill introduced which would give the banks the opportunity of coming under the savings institutions tax. We would be delighted to see them coming under the savings institutions tax with us. But, I think the taxation problem is not a problem of the structure of the deposit side of the commercial bank. I think the taxation problem is a problem for the Taxation Committees of the Senate and the Assembly to sit down in consultation with the tax experts in the State. The savings and loan people are perfectly willing to stand up and present all their facts and figures and justification for their position.

Just one other point, this talk about the great growth of the associations - there was a little play on statistics, which there usually are in these things, but all I can say is, again, there was a headline on October 8, 1978, in the Star Ledger, which reads, "State chartered bank show deposits surged." Their deposits were up 14 1/2%. I think that was about the same percentage or even a little less than ours during that particular period of time.

Gentlemen, I thank you for the opportunity of presenting my points of view on this. I would be, of course, delighted to try to answer any questions you might have.

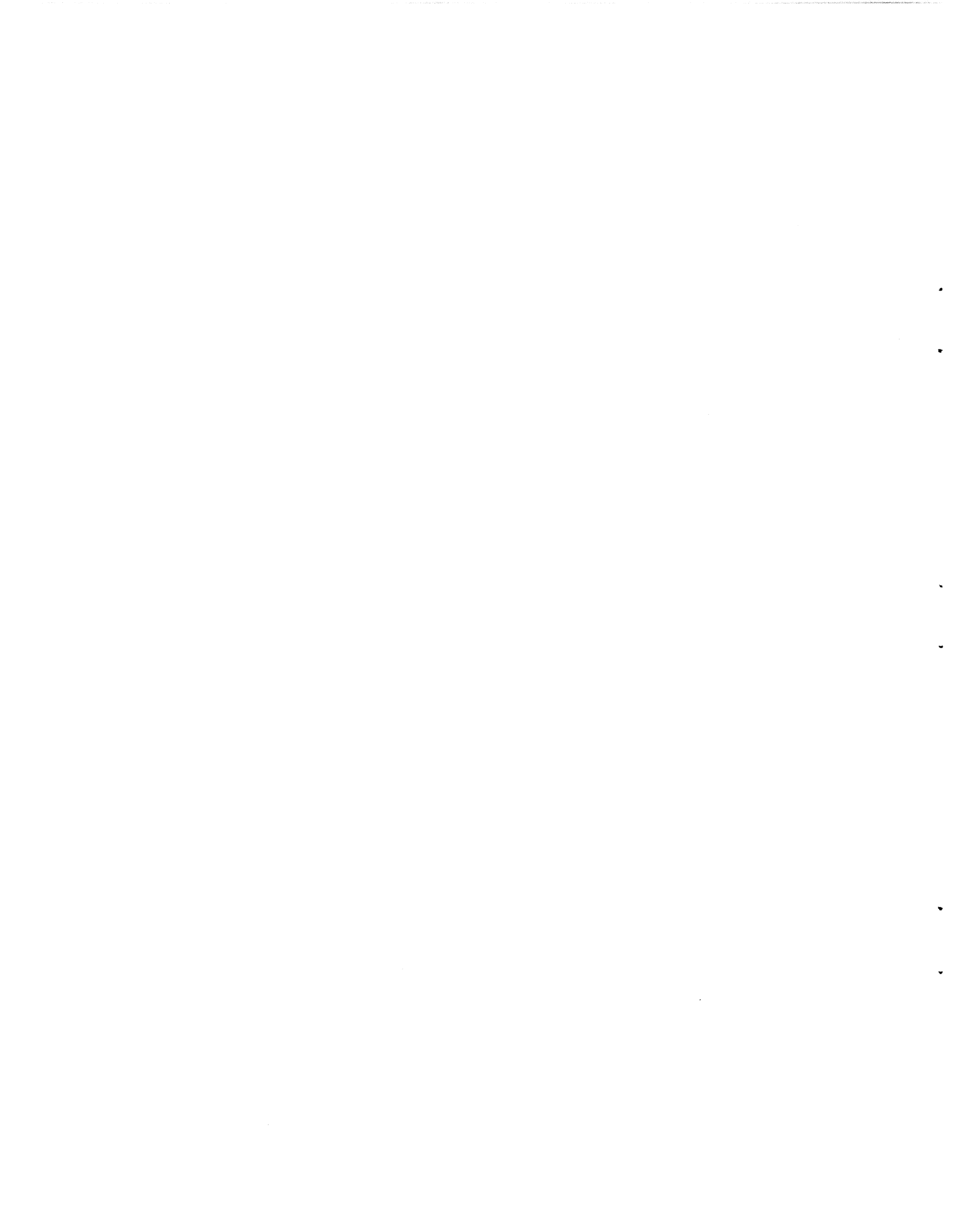
SENATOR BEDELL: I have no questions.

SENATOR WALLWORK: I have no questions.

SENATOR BEDELL: Thank you, sir. I believe that completes the list of scheduled speakers. I would like to thank all of you for your participation in these hearings. I would hope also that you convey to your various boards of directors and trustees our deep appreciation for your time today and your advice to us, and hopefully we will be able to come forth with more meaningful legislation because of your cooperation today. Thanks again.

(Hearing concluded)

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# New Jersey Bankers Association

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VICE CHAIRMAN  
THOMAS D. SAYLES, JR.  
President  
Summit and Elizabeth Trust Company  
Summit 07901

November 9, 1978

## STATEMENT TO SENATE LABOR, INDUSTRY AND PROFESSIONS COMMITTEE

Good morning. I am Thomas D. Sayles, President of the Summit and Elizabeth Trust Company and Vice Chairman of the New Jersey Bankers Association. On behalf of our 186 banks in New Jersey, I would like to express our sincere thanks for your willingness to hear our honest concerns about A. 63. We hope that we will be able to supply enough facts and information to convince you that the bill is totally unfair and not in the public interest. While several bankers will give you specific information during the hearing, I would like to explain our major concerns.

I would also like to advise you that I am also speaking for our NJBA Chairman Anthony Schoberl who has consistently attended sessions in Trenton relating to A. 63 but is unfortunately unable to attend today. I speak for him and our commercial bank community in New Jersey.

First and foremost, we are not against checking for savings and loan associations. We are not afraid of competing with the over 200 s&ls. As bankers we find ourselves in a very competitive market and compete with each other every day of the year. We are not afraid of competing with each other because we all compete with the same ground rules. HOWEVER, we are adamantly opposed to competing against over 200 s&ls when they maintain discriminatory and unfair interest rate, tax, and reserve advantages.

If the s&ls want to offer checking and become banks, they ought to compete with the same ground rules, just like bankers do with each other every day of the year. We would support checking for s&ls and stand ready to compete with them, provided they are willing to abide by the same rules that we must follow. They will give you all kinds of excuses why they can't. And they have not taken any steps either in Washington or Trenton

to help play with the same ground rules because, frankly, they have their cake and they want to eat it too.' They want you to serve it to them on a golden spoon and they aren't prepared to concede any parity issue to get what they want.

Secondly, the thrifts have spent a considerable amount of money advertising themselves as the so-called little friend of the people who are disadvantaged. In fact, s&l officers are quoted as describing the s&ls as the poor little guys on the block. Well, the underdog psychology doesn't hold up when you look at facts and at the statements of s&l executives themselves. Bragging about being New Jersey's Billion Dollar Family Financial Center, one s&l executive recently stated in an ad: "The Savings and Loan Industry has grown beyond the wildest expectations of bankers." A former s&l League Chairman said "The s&l business in New Jersey has experienced phenomenal growth over the past decade. We agree with them. In fact, statistics clearly prove their assertions. The s&ls are not the poor little guy on the block and the words prove it.

In fact, you might be surprised to learn that the average savings account held in the s&ls is \$3,700, while the average savings account for banks is only \$1,700. We understand that two thirds of the savings funds held by s&ls are in long term, high interest CDs. So when you add up the statistics, you find it's the bank that is serving the non-affluent little guy, not the s&ls. And Gordon Luce of the San Diego Federal Savings and Loan hit the nail on the head when he told s&l delegates at an s&l meeting that the "Automatic Transfer System is no threat. The s&l customer is sophisticated enough to know the bottom line and that is that s&ls pay more savings interest than any bank can pay." As bankers we know what Mr. Luce is saying is true. We hope that you will dismiss the myth that s&ls provide for the little guy, while the supposed rich banks represent the rich.

Since 1960, the s&ls without checking have continually drawn savings account monies from the banks. In New Jersey, the s&ls have now surpassed the banks in total time deposits and have continually increased their share of the total deposits in the marketplace, while the deposit share of the banks has decreased. Authoritative sources have confirmed that the tremendous growth of the s&ls is at the expense of banks. The s&ls are definitely the fastest growing sector of New Jersey's financial industry. In fact,

*66% greater than*

their last two year deposit growth was 30.6%; ~~substantially ahead of the 18% rate experienced~~  
~~by~~ New Jersey's banks. So even without checking, the s&l's are not the poor little  
boys on the block and their rapid progress is at the expense of banks and their cus-  
tomers.

Thirdly, the s&l's claim that their progress is the supposed result of "better  
customer service." It is totally illogical and unrealistic for anyone to think that  
one whole group of lending institutions has done dramatically better than other whole group  
of lending institutions because they are supposedly more people-oriented. If you listen to  
their legislative priority, the real reason for their growth is very clear. The s&l leaders  
continue to make it clear that the extension and continuation of their Reg. Q - 1/4% to 1/2%  
interest rate advantage - is their top priority. It's the Reg. Q advantage, not self-  
serving comments about better service, that is the reason for the unparalleled growth the  
s&l leaders also talk about. Their own national leaders fear third party transaction  
accounts because the addition of such power would clearly jeopardize their special in-  
terest rate advantage. The s&l industry knows that the interest rate advantage has  
made them the obvious power that they are, especially in New Jersey, and while we  
strongly urged our Congressmen to eliminate Reg. Q and allow our institutions the right  
to offer their customers 1/4% more on their savings, the s&l's fought desparately against con-  
sumers in order to retain their advantage AND THEY WON. The s&l's have the Reg. Q ad-  
vantage again for another TWO YEARS. Their progress is not the result of better service  
but an unfair advantage that allows them to prosper while ~~depriving~~ <sup>depriving</sup> bank customers of  
millions of savings dollars annually. Norman Strunk, Executive Vice President of the  
U.S. Savings League, also hit the nail right on the head when he told an s&l Legislative  
Conference that he had "No illusions about the determination of the commercial banking  
business to get rid of the interest rate differential. Make no mistake about it, it has  
been, is today, and will continue to be the number one legislative objective of commercial  
banking for as long as we keep winning and they keep losing." So it's not better service,  
it's their special advantages.

Fourthly, the s&ls claim that they have a legitimate reason for the special advantages because they serve people and the banks serve business. They use as the claim for their advantages with elected officials that they meet the needs of people and housing. In turn, they have unfairly created a image that banks don't supply people needs. A close look at bank financing proves that s&l image-making is unfair and untrue. New Jersey banks write millions of dollars worth of mortgages every year. We provide millions of dollars in consumer loans. The principal customers of banks are homeowners and consumers. Over 5 million of them in New Jersey.

Banks, are the largest source of student loans not the s&ls; are the leading provider of EDA funds that provide badly needed employment opportunities in disadvantaged urban areas; and are a prime provider of low cost municipal bonds which help allow municipal government to provide human social service needs and keep taxes at a point where senior citizens can afford to live in a community. All of these add up to services for people.

And where would a person be if he didn't have employment which allows him to have the means to even buy a home? Banks provide employment opportunity by supporting business growth and expansion. Where could the homebuilder get the revenue to purchase materials needed for the construction of a home if not from a bank? Where would the contractor gain the funds to build roads to make a home accessible if not from a bank? Banks provide the financing to do these things that are as vital to home construction and home purchase, as the mortgage itself. All of these add up to service for "people". Don't be misled by the tricky, selfserving comments s&ls make about being the friends of people; while implying the banks are not. While it may gain your sympathy and allow them to hold onto their special advantages, it is misleading and unfair to you who are trying to objectively determine what is right.

Fifthly, the s&ls have worked very hard trying to convince the Legislature that the approval of A. 63 will supposedly serve their 4 million accounts. They will chide the efforts of bankers who seek fair play for attempting to prevent consumers from having another service. They put themselves as the heros and us as the villains.

Ask them why they worked extremely hard to deny bank customers, who are also consumers, the right to earn a higher rate of interest on their savings like the consumers in the s&l? They worked very hard to deny New Jersey citizens who save at banks almost 30 million dollars in added interest by successfully convincing Congress to allow them to give their customers preference over bank customers for another two years. So when they piously tell you that bankers are hurting consumers by asking for fair play, their lobbying denies New Jersey consumers an opportunity to gain an additional service and additional income.

There doesn't seem to be any mass exit of savings customers from s&ls to banks over the years because s&ls don't presently offer checking. So their argument that they are losing or may lose customers doesn't hold up. Perhaps, the bottom line reason why they want checking, and we understand there is a large number of s&ls who don't want to get into the banking venture, is not to hold their customers, but, perhaps, to further take savings depositors away from banks. Wouldn't it be ironic if they took even more customers and deposit growth away from banks if they offered checking and kept their special advantages? Let's face it, would you go to a local bank if the s&l across the street not only offered checking but also 1/4% to 1/2% more in interest in savings?

Sixthly and finally, the passage of A. 63, as written, would be extremely unfair and would render a substantial additional advantage to the s&ls. You have the ~~potential~~ power to <sup>potentially</sup> harm our industry, particularly the large number of small banks who are virtually identical in their housing contributions to their community as the local s&l. Please remember that the s&ls are not poor little people; they have grown at a rate that is much faster than banks and now have more total time deposits than banks thanks to their special advantages; they don't represent the little guy but the more affluent saver; they mislead you when they hold only themselves as friends of the consumer, while the banks are pictured as non-human, anti-consumer businessmen; and they once and for all ought to give up their smart piecemeal approach to power <sup>S</sup> that makes them bank competitors while maintaining their special outmoded advantages.

And remember, we don't fear competition. We are in one of the most competitive industries in the country. But are competing with s&ls in various areas at a disadvantage.

If the s&ls want to provide checking, they should be man enough to come forward and agree that their new power should be provided when they play by the same rules as their banking competitors. They have actively and successfully resisted, to date, legislative actions that would provide tax, interest rate and reserve parity. They haven't taken any steps to eliminate our major opposition and probably won't as long as they have it both ways. We do believe in the legislative process and feel that each of you will try to do what is just and fair.

There are many people who would like to speak before you. We would like to thank you for providing an opportunity for us to express our concerns. We know, it will be a difficult decision for you because the s&ls have put you in a difficult situation. Thanks so much for your time and consideration and best wishes to each of you.

STATEMENT OF EDMOND V. LAWLOR, JR., PRESIDENT  
NEW JERSEY SAVINGS LEAGUE, FOR PRESENTATION AT THE  
PUBLIC HEARING ON ASSEMBLY BILL NO. 63  
NOVEMBER 9, 1978 - SENATE CHAMBER - 10 A.M.

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STATEMENT OF EDMOND V. LAWLOR, JR., PRESIDENT  
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My name is Edmond V. Lawlor, Jr., and I am President of the New Jersey Savings League, the trade association representing 210 savings and loan associations in New Jersey.

The New Jersey Savings League very much appreciates the opportunity to give its views on A-63 to the Senate Labor, Industry and Professions Committee.

This bill would permit state-chartered savings and loan associations to provide checking accounts to their nearly 4 million account holders. The savings and loan business in New Jersey views checking account powers simply as a means of giving the 4 million people in New Jersey with accounts in savings and loans convenient access to their funds. The bill will provide a practical and simple way to withdraw their money.

CONSUMER DEMAND

As the Committee is aware, there exists a great deal of confusion in the minds of the public concerning services offered by the three major types of depository institutions in New Jersey. Savings and loan account holders cannot understand, for example, why their requests for services usually associated with all financial institutions must be denied at their local savings and loans. Customers whose requests for checking accounts have been denied often are left with the false impression that their savings and loan is not capable of providing simple transaction account services. Beyond the fact that savings and loans often lose customers who desire to have the convenience of household checking accounts where they maintain savings accounts and their home mortgage, another unfortunate result of this lack of service is the creation in the public mind of a false image. It is what former Banking Commissioner Virginia Long characterized as "second-class citizenship for savings and loan customers". The inability for savings and loans to provide a routine financial service such as personal checking to its customers has contributed to the unnecessary misunderstanding on the part of our citizens of the important differences that exist among the various types of financial institutions in New Jersey.

Customers looking for the convenience of dealing with a single financial institution, where they can establish an orderly savings plan and create an efficient system for paying bills and debts, are not able to find satisfaction at a savings and loan association.

Petitions supporting transaction account authority gathered from all parts of the state bearing thousands of signatures of savings and loan customers give a strong indication that the public is becoming aware that state law prohibits them from opening a checking account in the institution of their choice.

We believe it is self-evident that savings and loan depositors desire checking account services and should not be denied this service simply because they choose to do business with a savings and loan association. But there is another group of consumers who would be hurt if A-63 is not passed in the Senate. I am speaking now about the prospective homebuyers of our state. Many individuals and families who would ordinarily rely on savings and loans for mortgage loans will be unable to obtain financing for the purchase of a home if A-63 is not enacted into law. There can be no doubt that recent developments in the financial field at both the state and federal levels will cause the State's savings and loans to reduce their mortgage lending drastically if they are not permitted to give their account holders convenient access to their funds.

Aside from the intrinsic convenience of checking accounts to account holders, they are offered also as a means to retain vital savings accounts, nearly all of which are ultimately invested in mortgage loans. Legislative approval of checking services will help compensate for the reduction in available mortgage funds which will result from the recently authorized linked accounts in all banks, the availability of NOW accounts in New York State, interest-bearing checking accounts in credit unions, and transaction accounts in Pennsylvania. A-63 in its amended form would limit savings and loan associations' checking powers to household accounts and would specifically exclude any types of business accounts which are normally associated with commercial banks. Savings and loan associations in New Jersey currently have approximately 85 percent of their assets in mortgage loans. We believe that enactment of A-63 would enable savings and loans to retain their existing accounts and provide the much needed service to New Jersey citizens and remain the primary source of home mortgage financing in the state.

It is our sincere belief as we testify before this Committee today, that the most important reason why A-63 should be passed is that New Jersey residents desire and deserve convenient access to their funds regardless of which type of financial institution they choose as their depository. The competitive arguments which exist and currently divide the commercial banks from the savings and loan associations deserve consideration by the Committee. But these competitive differences are not nearly as important in our judgment as the consumer demand for savings and loan checking accounts and the potential benefits of checking services to prospective homebuyers.

### COMMERCIAL BANKS, SAVINGS BANKS AND CREDIT UNIONS

Commercial banks are specialists in loans to business and industry. Commercial bank financing provides an essential catalyst to the New Jersey economy.

Savings banks emphasize mortgage lending and also invest in a wide variety of other areas to supplement their long term mortgage loans.

Credit unions, which have within the past several years begun to assert themselves in the financial community, specialize in consumer loans to their members.

These three types of financial institutions, despite the wide differences in their structure and function, all are authorized to provide checking services to their customers. Savings and loan associations in New Jersey, the second largest type of financial institution in the state, are not permitted to provide the 4 million people who have accounts there with convenient access to their funds.

Savings and loan associations are able to specialize in mortgage lending by attracting the savings of New Jersey residents and making long-term market rate mortgage loans with those funds. Associations also are empowered to make home improvement loans, consumer loans and to make limited other investments. But the primary investment of savings and loan assets is in mortgages. Exhibit I is a comparison of the extent to which New Jersey financial institutions are involved in mortgage lending. (See Exhibit I attached.)

### CHECKING POWERS WON'T DIMINISH MORTGAGE LENDING

Savings and loans essentially borrow money from savers to lend it to families and individuals who want to buy homes. The importance of savings accounts to the supply of home mortgage funds cannot be overstated.

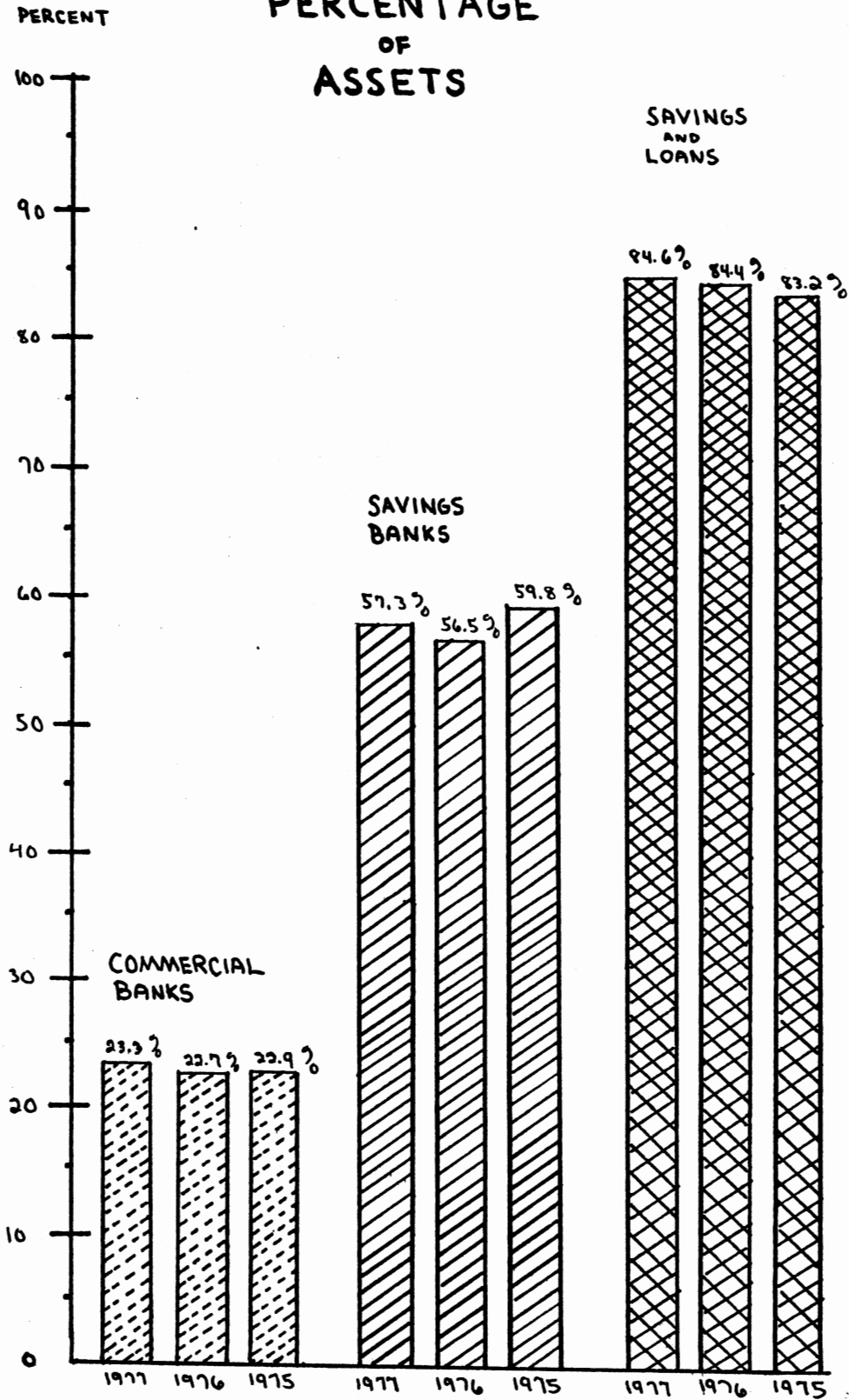
With the demand for mortgage money so consistently high, savings and loans must find a way to maintain a steady supply of savings. Thus, to insure consistent savings inflows and the resulting good supply of mortgage money, associations must give their customers a convenient way to withdraw their funds.

If savings and loans were able to offer checking accounts, they would not shirk their primary business activity--making mortgage loans.

It is important to note that since savings banks began to utilize their checking account powers, their lending patterns did not change. In fact, their percentage of assets in mortgage loans (as shown in Exhibit II) has remained relatively constant.

Savings and loan associations are mortgage lenders. They make more than half of all mortgages in New Jersey during a typical year. Transaction account powers will not deter savings and loans from their role as the number one provider of home mortgage financing.

# MORTGAGE LOANS AS A PERCENTAGE OF ASSETS



SOURCE: NEW JERSEY DEPARTMENT OF BANKING  
FEDERAL DEPOSIT INSURANCE CORPORATION  
FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

EXHIBIT II

NEW JERSEY SAVINGS AND LOAN ASSOCIATIONS TEN YEAR LENDING

RECORD (000's Omitted)

MORTGAGE LOANS HELD AS A PERCENTAGE  
OF SAVINGS DEPOSITS AND ASSETS

<u>Year End</u>	<u>Savings Deposits</u>	<u>Assets</u>
1977 \$14,966,500-	97.60%	84.55%
1976 13,018,800-	97.20%	84.43%
1975 11,274,300-	96.95%	83.22%
1974 10,005,500-	100.47%	84.95%
1973 9,259,500-	100.72%	85.38%
1972 8,197,400-	98.50%	85.68%
1971 6,794,400-	96.12%	83.64%
1970 5,868,900-	87.93%	85.15%
1969 5,402,700-	99.36%	86.72%
1968 4,976,000-	96.08%	85.99%
1967 4,640,100	97.47%	86.28%

Source: Federal Savings and Loan Insurance Corporation

COMPARISON OF LENDING RECORD OF NEW JERSEY MUTUAL SAVINGS  
BANKS WITH DEMAND DEPOSIT ACTIVITY

MORTGAGE LOANS HELD AS A PERCENTAGE  
OF ASSETS (000's omitted)

DEMAND DEPOSIT ACCOUNTS AS  
PERCENTAGE OF ASSETS

<u>Year End</u>		<u>Year End</u>	
1977 \$4,413,055-	57.24%	1977 \$255,951,000-	3.31%
1976 3,828,564-	56.45%	1976 194,338,000-	2.87%
1975 3,583,671-	59.84%	1975 167,209,000-	2.79%

Source: New Jersey Banking Department

In addition to the direct benefits of mortgage lending to the recipient of the loan, there is also a multiplier effect which traces the impact on the economy as the initial payment moves through successive hands.

While this effect can be most readily seen and appreciated in the loans granted for the construction of new homes, it also applies to loans on existing homes.

Economists disagree on the magnitude of the multiplier but most place it between two and three, meaning each construction loan dollar generates up to \$3.00 in the economy.

As Exhibit III shows, the \$668 million expended by New Jersey savings and loan associations in construction loans during 1977 will produce income in the state economy of somewhere between \$1.3 billion and \$2 billion. (The average would be \$1.67 billion.)

The multiplier effect on loans made on existing homes is also substantial, if somewhat harder to define. Perhaps the easiest way to see the impact is to think of the new construction which would not take place if existing homes were not sold. New Jersey savings and loans closed billions of dollars in loans on existing homes during 1977. A host of ancillary jobs were supported by the buying and selling of homes--real estate agents, lawyers, appraisers, insurance agents, movers and others involved in the home maintenance fields, to name just a few. (See Exhibit III attached.)

#### NEIGHBORING STATES ENTER COMPETITION FOR MORTGAGE FUNDS SUPPLY

For savings and loans, nowhere has the competition from New York and Philadelphia banking institutions been more strongly felt than in the area of attracting savings dollars for use in mortgage lending. In 1976, New York savings banks and savings and loans were granted checking account powers by the New York Legislature and Governor Carey. New Jersey associations are now facing a situation in which commuters to New York are able to take advantage of the free checking accounts in the area where they work. In October, 1978, national banks and federal savings and loan associations in New York were granted the authority to offer interest-bearing checking accounts. And, on November 1, all banks in New York and New Jersey were able to offer the automatic transfer accounts.

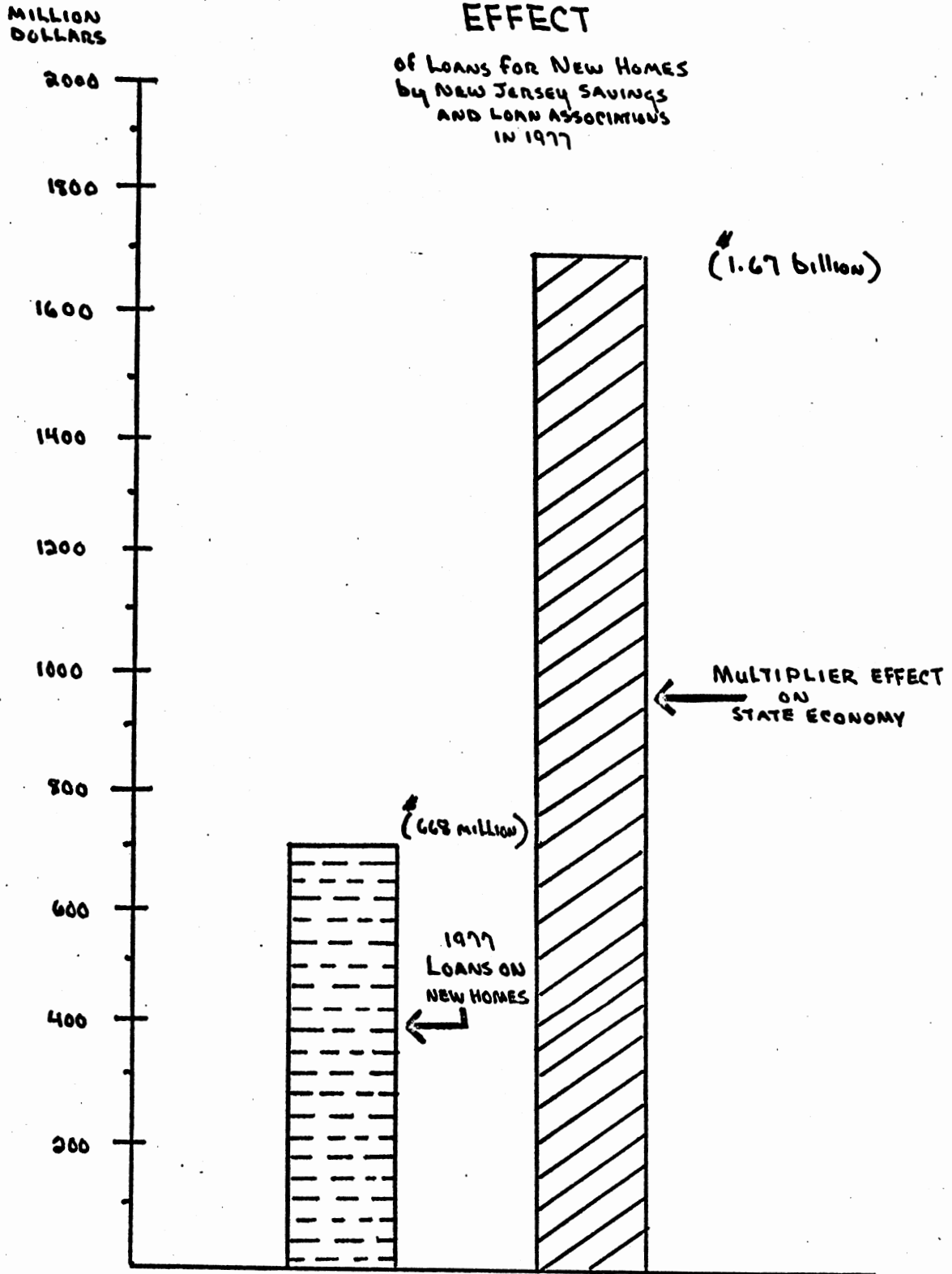
In Pennsylvania, meanwhile, the state Attorney General recently ruled that savings banks and savings and loans have the authority to issue transaction accounts.

In all of the New England states, thrift institutions have been granted one form or another of checking account authority over the past several years. In fact, it was the New England "experiment" which led the New York institutions to press for such customer services, and to be granted NOW account authority.

In New Jersey, savings banks have had checking account authority for many years, although it has only been within the past few years that these institutions have begun to offer them widely. New Jersey's savings banks, taxed like savings and loans are able to pay the same interest on savings accounts permitted to savings associations, are utilizing their checking account powers. The savings bank experience in New Jersey is proof positive that checking is a consumer service and another way for savings associations to continue to provide mortgage loans.

# MULTIPLIER EFFECT

of LOANS FOR NEW HOMES  
by NEW JERSEY SAVINGS  
AND LOAN ASSOCIATIONS  
IN 1977



SOURCE:

OFFICE OF THE CHIEF ECONOMIST, FEDERAL HOME LOAN BANK OF NEW YORK  
FEDERAL HOME LOAN BANK BOARD, WASHINGTON, D.C.

Credit unions in New Jersey, meanwhile, have been growing rapidly by offering additional services to their members. The state's 642 credit unions increased their savings accounts by nearly 17 percent during 1977, while savings and loans deposits grew by about 15.2 percent. With credit unions, the chief attractions for members are the rates paid on savings (which range from 5.5 to 7 percent on regular accounts) as well as "share drafts" which essentially are interest-bearing checking accounts. Credit unions are able to pay savings rates above the statutory limit since they are not regulated as are banks, savings banks or savings and loan associations.

We believe that savings and loans should be able to offer consumers who elect to deal with associations the same service which credit unions are able to offer to their members.

SAVINGS AND LOANS CANNOT ADEQUATELY UTILIZE FEDERAL  
DIRECT DEPOSIT SYSTEM

The United States Department of the Treasury in 1975 began in New Jersey its Direct Deposit of Federal Recurring Payments program, in which thousands of individuals could choose to receive a variety of government checks by an automatic deposit in their savings or checking accounts.

From the program's inception, the majority of the funds flowed into commercial banks and savings banks since these institutions were able to give the recipients access to the funds through checks. Savings and loans, meanwhile, were not able to use this opportunity to increase the supply of mortgage funds. Since associations may not provide direct deposit checking accounts, time deposits often accompanying these checking accounts are also lost to other financial institutions.

Since the federal program began, many private companies have begun corporate direct deposit of payroll checks, and again, the funds have flowed into savings banks and commercial banks where checking accounts made such systems convenient for the recipients.

Savings and loan associations have to participate as an equal partner in these new electronic systems to continue to provide funds for housing, but are unable to do so as long as they are prohibited from offering convenient access to depositors' funds.

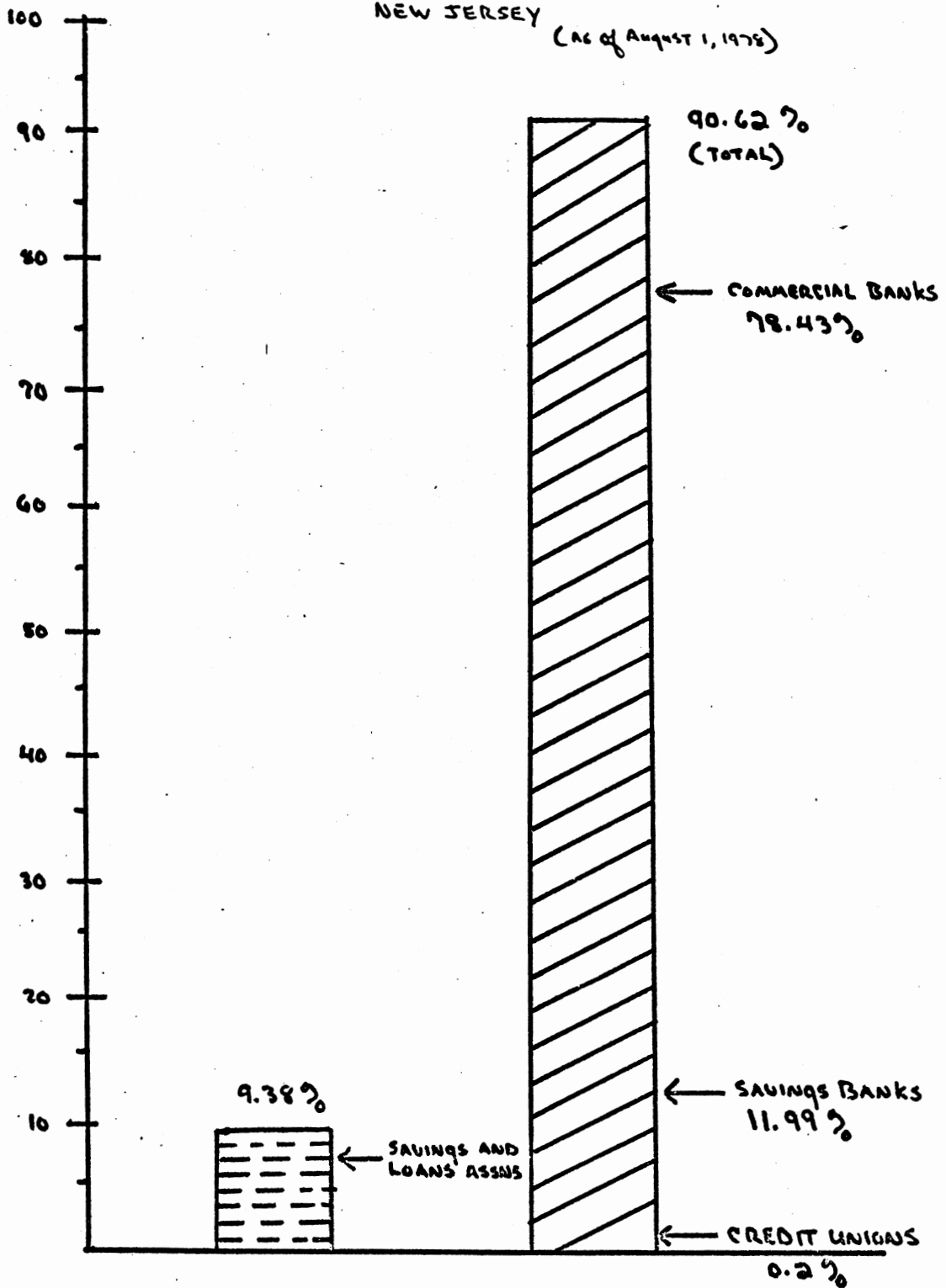
The following statistics show that as of August 1, 1978, savings and loan associations in New Jersey are receiving only 9.38 percent of all direct deposits, while banks received 90.62 percent.

Exhibit IV (see attached) shows a breakdown by type of financial institution.

PERCENTAGE OF  
TOTAL PAYMENTS

FEDERAL DIRECT DEPOSIT  
PROGRAM  
IN  
NEW JERSEY

(As of August 1, 1978)



SOURCE:

UNITED STATES DEPARTMENT OF THE TREASURY

NATIONAL FINANCIAL REGULATORS SAY  
SAVINGS AND LOANS NEED CHECKING POWER

The chief regulator of national banks has repeatedly said that thrift institutions should have third-party powers to help them develop a more favorable ratio of liabilities to assets.

Comptroller of the Currency John G. Heimann says that savings and loan assets have been composed of long-term, fixed-rate mortgages, but since association deposits have become more sensitive to changes in interest rates, they need more flexibility in their structure.

Similarly, Bryce Curry, President of the Federal Home Loan Bank of New York, has said that transaction account capability is a necessary tool for savings associations. Lawrence Connell, National Credit Union Administrator, has repeatedly called for transaction account powers for all thrift institutions as well.

SAVINGS AND LOAN FEDERAL REGULATOR  
REMOVES LEGAL BARRIER TO DEMAND ACCOUNTS

The Federal Home Loan Bank Board more than two years ago corrected a technical regulatory impediment to the issuance of demand accounts by savings and loan associations by adopting an amendment to the Federal Savings and Loan Insurance Corporation Regulations to permit insured associations to offer demand accounts when authorized to do so by state law. (The new rule is in the FSLIC Regulations, paragraphs 561.3 and 561.11a). By issuing this regulatory change, the Federal Home Loan Bank Board conceded that savings and loan associations are adequately structured and managed to be capable of offering checking account services to their customers.

Therefore, there is no longer any federal regulation which would prohibit insured New Jersey savings and loan associations from extending demand account privileges to their customers. In fact, an article in the Star Ledger of Newark on October 25 indicated that the Federal Home Loan Bank Board is considering permitting federal savings and loans (22 in New Jersey) some sort of demand account powers with the automatic transfer provision.

Experience has shown that when federal institutions are granted a significant advantage over state-chartered institutions, a trend toward conversion from state to federal charter inevitably follows. Such a trend could remove some institutions from the regulatory authority of the New Jersey Banking Commissioner.

SAVINGS AND LOANS ARE NOT SHIRKING THEIR TAX LOAD--  
THEY PAY MORE THAN COMMERCIAL BANKS

The New Jersey Legislature in 1973 enacted the Savings Institutions Tax Act (SIT) which taxed savings and loans and savings banks in such a way as to avoid inhibiting their ability to continue to support housing in New Jersey. In essence, the SIT is a tax which permits thrift institutions to grow in reserves so that the state's residential mortgage demand can be met consistently. At the time of the hearings on this new tax, it was shown that savings and loan taxes are paid with funds, most of which would have gone into statutory reserves, and that since reserves must be met at the rate of five percent of savings deposits, deposit growth is severely impeded. When that happens, there are less savings deposits available to make home mortgages than otherwise would be the case.

Because the 1973 tax included only institutions with a substantial investment in the home loan market, commercial banks pay more state taxes than do savings and loan associations and savings banks.

But in any fair discussion comparing taxes paid by financial institutions, the entire tax story is relevant. On the federal level, commercial banks are able to take advantage of a multitude of tax-exempt investments so that their total tax load, compared with savings and loans, is far lower, based on taxes paid per million dollars of average assets. Savings associations, which have 59.99 percent of the assets and 54.18 percent of the net income of commercial banks, paid 78.91 percent of the total taxes that commercial banks did in 1977.

Comparing total taxes paid with net income of the two types of institutions reveals that commercial banks had an effective tax rate of 22.58% in 1977, compared with a 32.89% rate for savings and loans (See Exhibit V attached.)

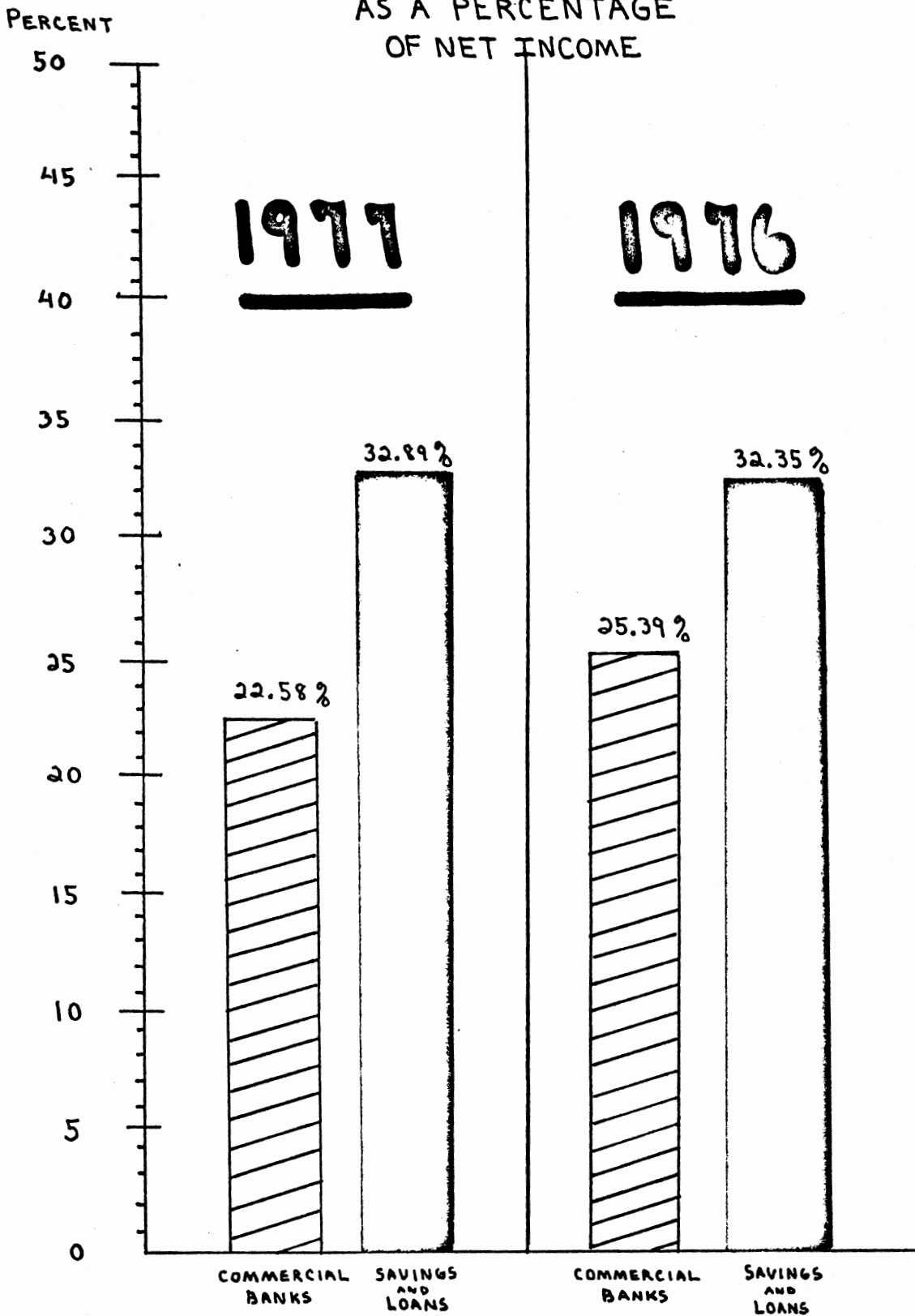
Exhibit VI, using statistics obtained from the Federal Deposit Insurance Corporation and the State Division of Taxation for banks and the Federal Savings and Loan Insurance Corporation and the State Division of Taxation for savings associations, shows the total tax picture. (See Exhibit VI, attached.)

THE MYTH OF COMPETITIVE EQUALITY

On behalf of the savings and loans of New Jersey, I would like to address myself to what we call "the Myth of Competitive Equality" between commercial banks and savings and loan associations. As the members of the Committee well know, savings and loan associations and commercial banks are as different as any two types of financial institutions can be in their structure and in their reasons for existence. We believe it is important for the Committee to realize that the only area where commercial banks compete with savings and loan associations is for the savings dollar.

The commercial banking industry in New Jersey, which is the only source of opposition to A-63, has portrayed itself as being virtually neck-and-neck business-wise with savings and loans, and therefore unable to cope with increased competition. Exhibit IV sets the record straight by comparing the total deposits of the two types of financial institutions in the years 1976 and 1977.

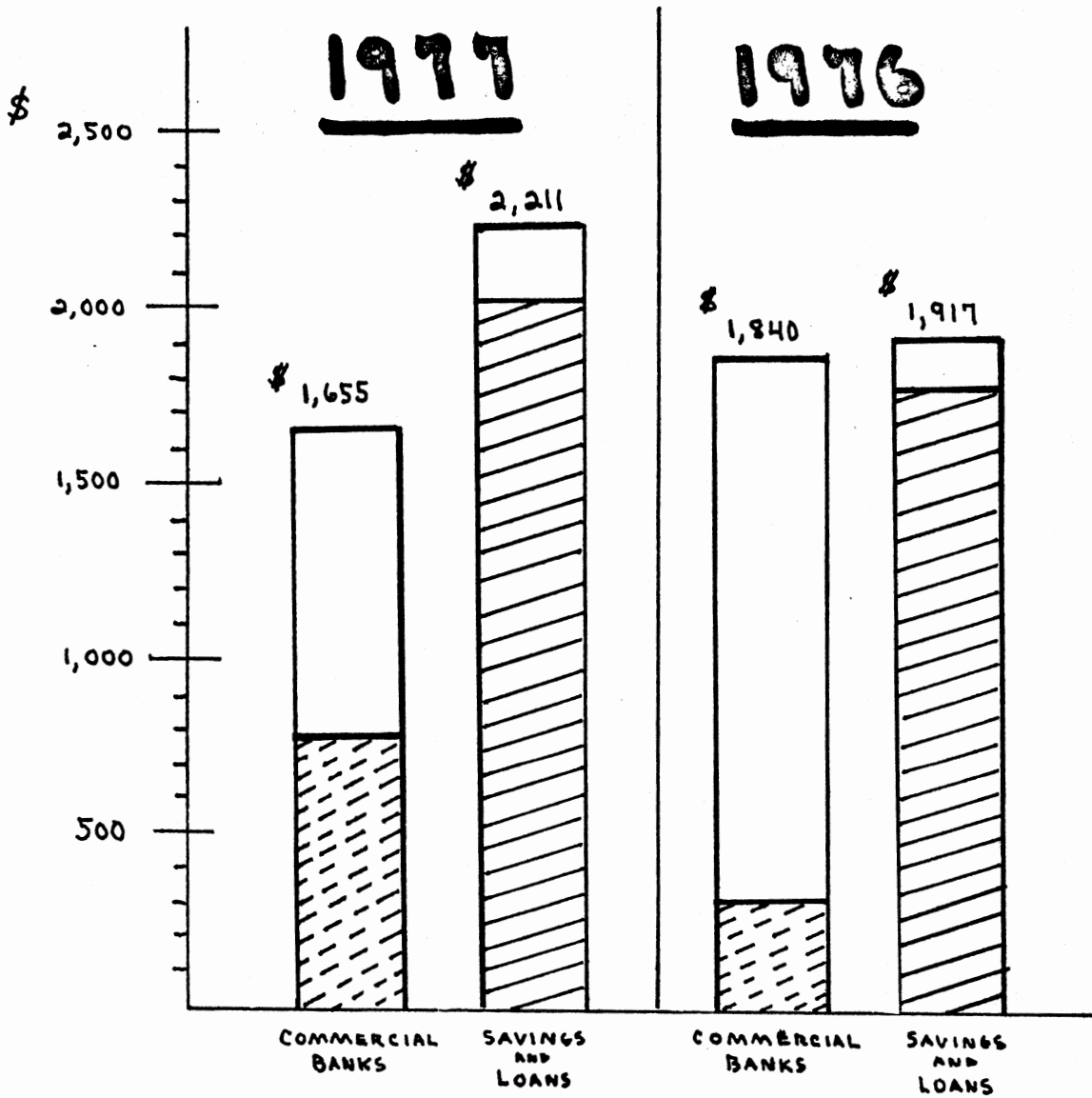
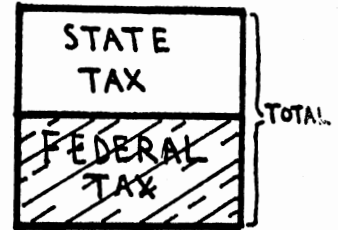
# TOTAL TAXES AS A PERCENTAGE OF NET INCOME



SOURCE: FEDERAL DEPOSIT INSURANCE CORPORATION  
FEDERAL HOME LOAN BANK BOARD

TOTAL  
TAXES PAID / PER MILLION  
IN  
AVERAGE ASSETS

EXHIBIT VI  
Page 7-b



SOURCE: New Jersey Division of Taxation  
Federal Deposit Insurance Corporation  
Federal Savings and Loan Insurance Corporation

The chart shows that in 1976, commercial banks had \$10.1 billion more in deposits than did savings and loan associations in New Jersey. In 1977, this spread increased to \$10.4 billion. A gap of more than ten billion dollars should not give the commercial banking industry cause for competitive alarm, especially since the gap is widening, not closing. (See Exhibit VII attached.)

The commercial bankers have contended that savings and loans have been reducing the market share of total savings dollars. Exhibit VIII shows that there has been a shift of only 2.2 percent in total savings over the past 17 years. (See Exhibit VIII attached.)

Exhibit IX shows that the total deposit growth of savings and loan associations and commercial banks in New Jersey has been pretty much at an even pace, a fact which further refutes the allegation that savings and loans have been draining deposits out of commercial banks. As the chart shows, between 1960 and 1977, commercial bank deposits grew \$18.5 billion. These facts simply do not support the impression left by the commercial banking industry that they are losing deposits already and that passage of A-63 would exacerbate an already critical situation. (See Exhibit IX attached.)

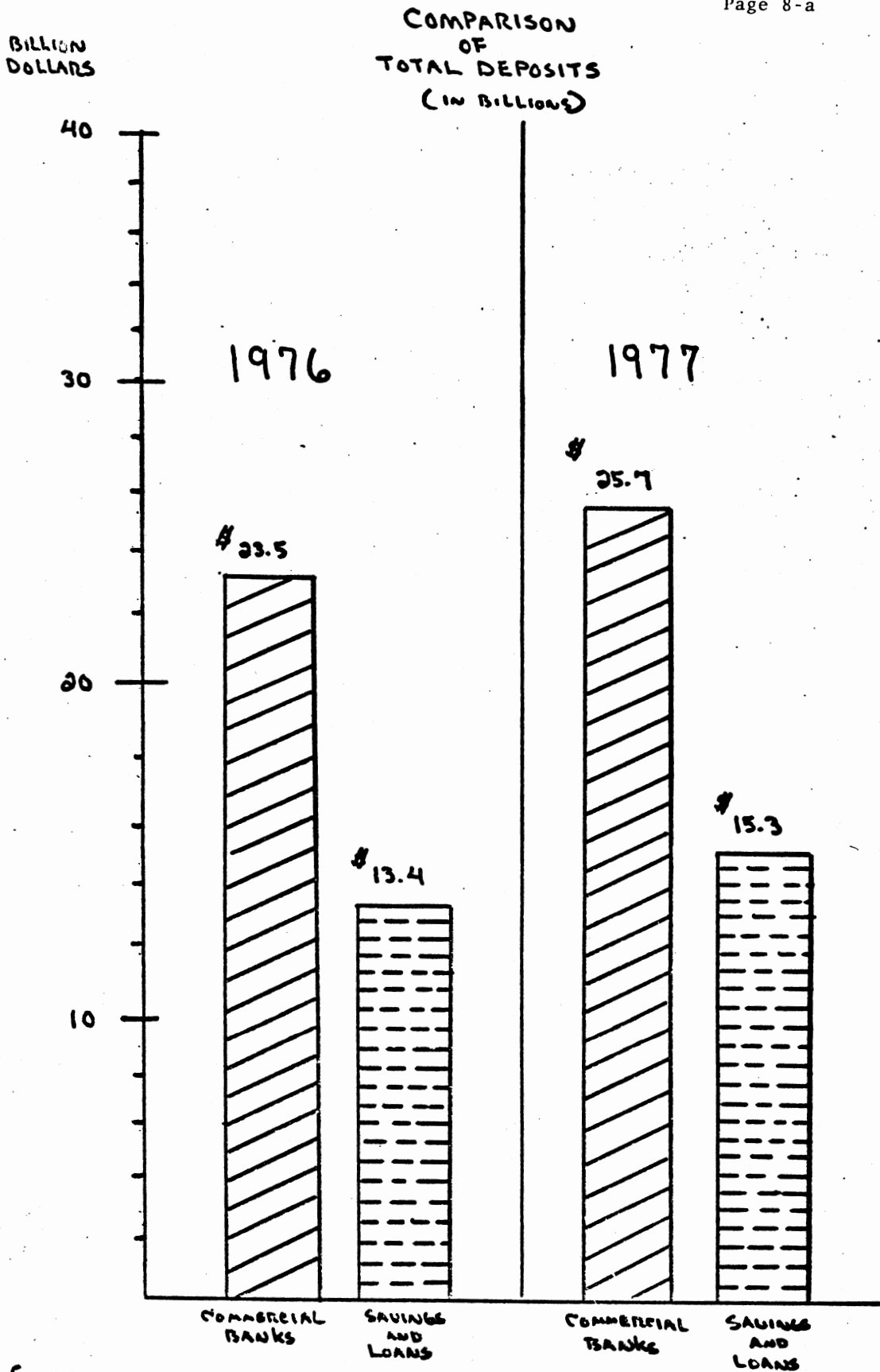
Another false impression that the commercial banking industry has tried to leave with the Legislature is that savings and loan associations consistently achieve a higher rate of return on capital than do commercial banks.

The structure of commercial banks and their ability to make profits is vastly different from the structure of savings and loan associations. However, in an attempt to compare the earnings of the two types of institutions, the New Jersey Savings League has prepared Exhibit X which compares the equity capital, (that is, the supply of funds in each type of institution which are "at risk"), as a percentage of each type of financial institution's net income.

The exhibit shows that in 1977, commercial banks had a 1.13 percent return on capital, while savings and loan associations registered a .68 percent return. Another way to look at it is to say that commercial banks have a 66.18 percent greater return on total equity capital than do savings and loan associations.

We believe this comparison further demonstrates that the earning power of the commercial banking industry is far greater than the mortgage-oriented savings and loan business and that granting checking account capability to savings and loans will not threaten the economic position of commercial banks.

Savings accounts are virtually the only way a savings and loan association can obtain the funds it needs to maintain its portfolio of mortgages. Commercial banks, on the other hand, are structured so that they may raise capital through sale of stock, by providing checking and savings services to corporations and individuals and other methods of corporation financing.



SOURCE:

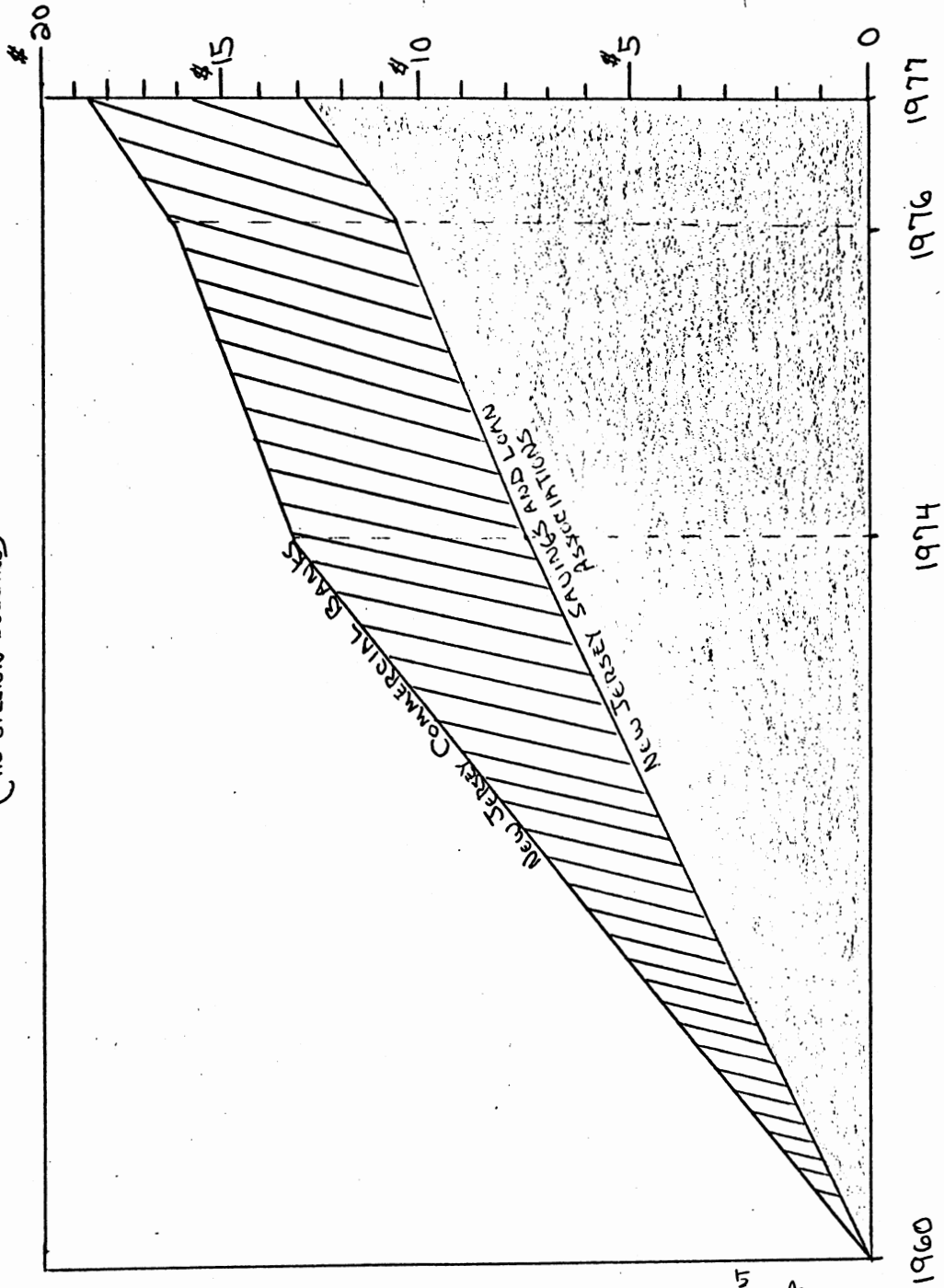
NEW JERSEY DEPARTMENT OF BANKING  
COMPTROLLER OF THE CURRENCY - ADMINISTRATOR OF NATIONAL BANKS  
FEDERAL DEPOSIT INSURANCE CORPORATION  
NEW JERSEY SAVINGS LEAGUE - ANNUAL REPORTS

**TOTAL SAVINGS & TIME DEPOSITS HELD  
AND % MARKET SHARE**

	1960		1974		1976		1977	
Commercial Banks	3,178,426	44.5	12,630,781	45.6	15,570,855	43.6	16,789,888	42.3
Savings Banks	1,347,200	18.9	4,674,100	16.9	6,100,000	17.1	6,843,000	17.2
Savings & Loans	2,513,600	35.2	9,958,600	36.0	13,394,200	37.5	15,331,700	38.6
Credit Unions	105,000	1.4	431,300	1.5	613,000	1.8	739,000	1.9
<b>TOTALS</b>	<b>7,144,226</b>	<b>100.0</b>	<b>27,694,781</b>	<b>100.0</b>	<b>35,678,055</b>	<b>100.0</b>	<b>39,703,588</b>	<b>100.0</b>

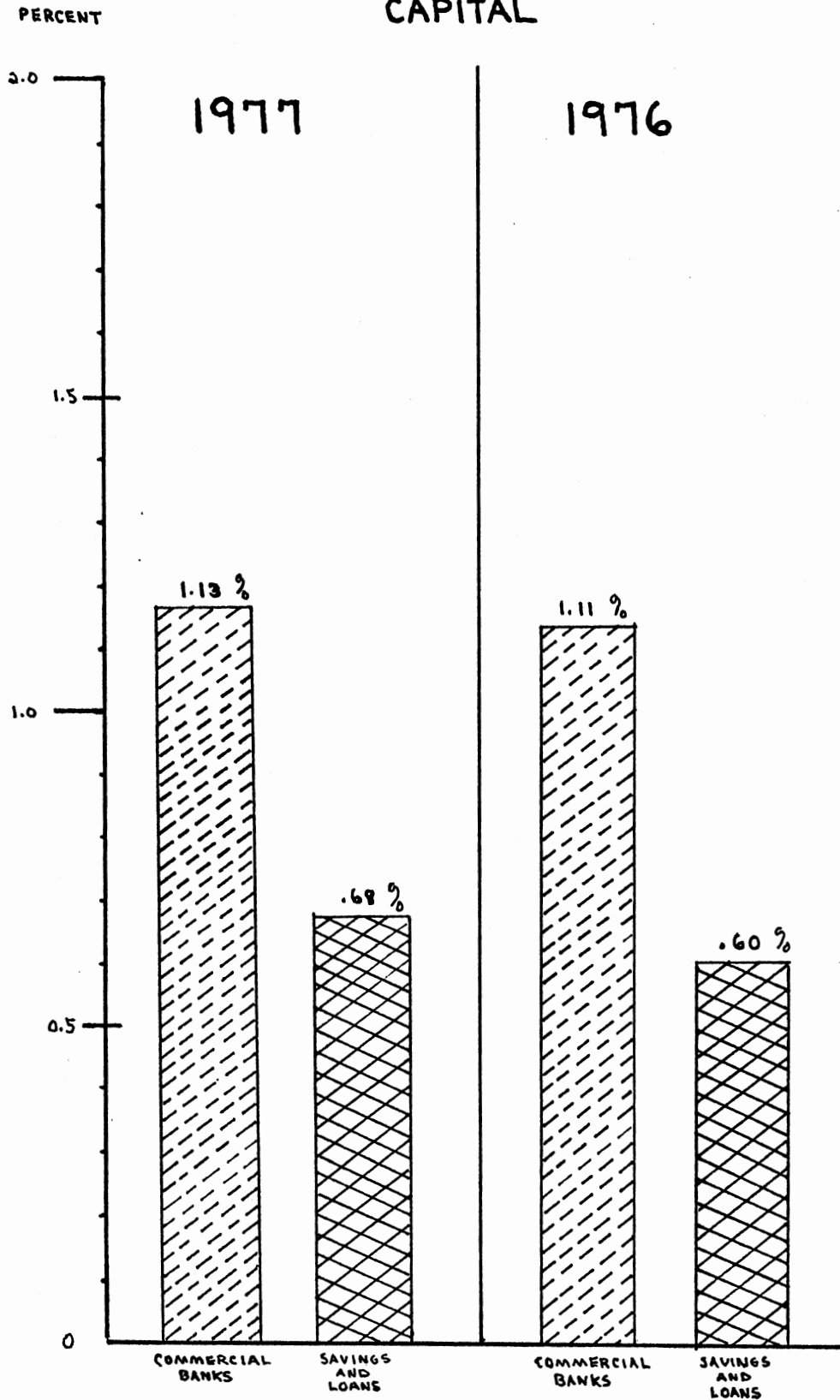
SOURCE: N.J. Department of Banking  
Comptroller of Currency - Administrator of National Banks  
FDIC  
N.J. Annual Report  
National Credit Union Administration

# TOTAL DEPOSIT GROWTH (in Billion Dollars)



SOURCE :  
New Jersey Banking Department  
Comptroller of the Currency  
Federal Deposit Insurance Corp.  
New Jersey Savings League -  
Annual Report

# EARNINGS AS A PERCENTAGE OF CAPITAL



SOURCE: NEW JERSEY DEPARTMENT OF BANKING  
FEDERAL DEPOSIT INSURANCE CORPORATION  
FEDERAL HOME LOAN BANK BOARD

So in order to make certain money was available for residential home financing, Federal Reserve Board Regulation Q was implemented in 1976 to permit savings banks and savings and loan associations to pay what was at that time a 1 percent difference in the interest rates they were allowed to pay their account holders. Commercial bankers in this country gradually chipped away at the 1 percent differential so that today it is only 1/4 of 1 percent on all but one type of savings account and has been eliminated entirely on retirement accounts and accounts which are part of an automatic savings-checking transfer system.

The United States Congress, reinforcing the need to help savings and loans and savings banks attract and retain funds for housing, turned Regulation Q into a law, thereby taking from the Federal Reserve Board the power to rescind or further shrink Regulation Q.

In New Jersey, commercial banks have been very successful, despite Regulation Q, in improving their personal savings growth rate. The main reason we believe that commercial banks have been so successful in appealing to the retail market is that most of them have adopted the "full service" concept of banking which emphasizes customer services.

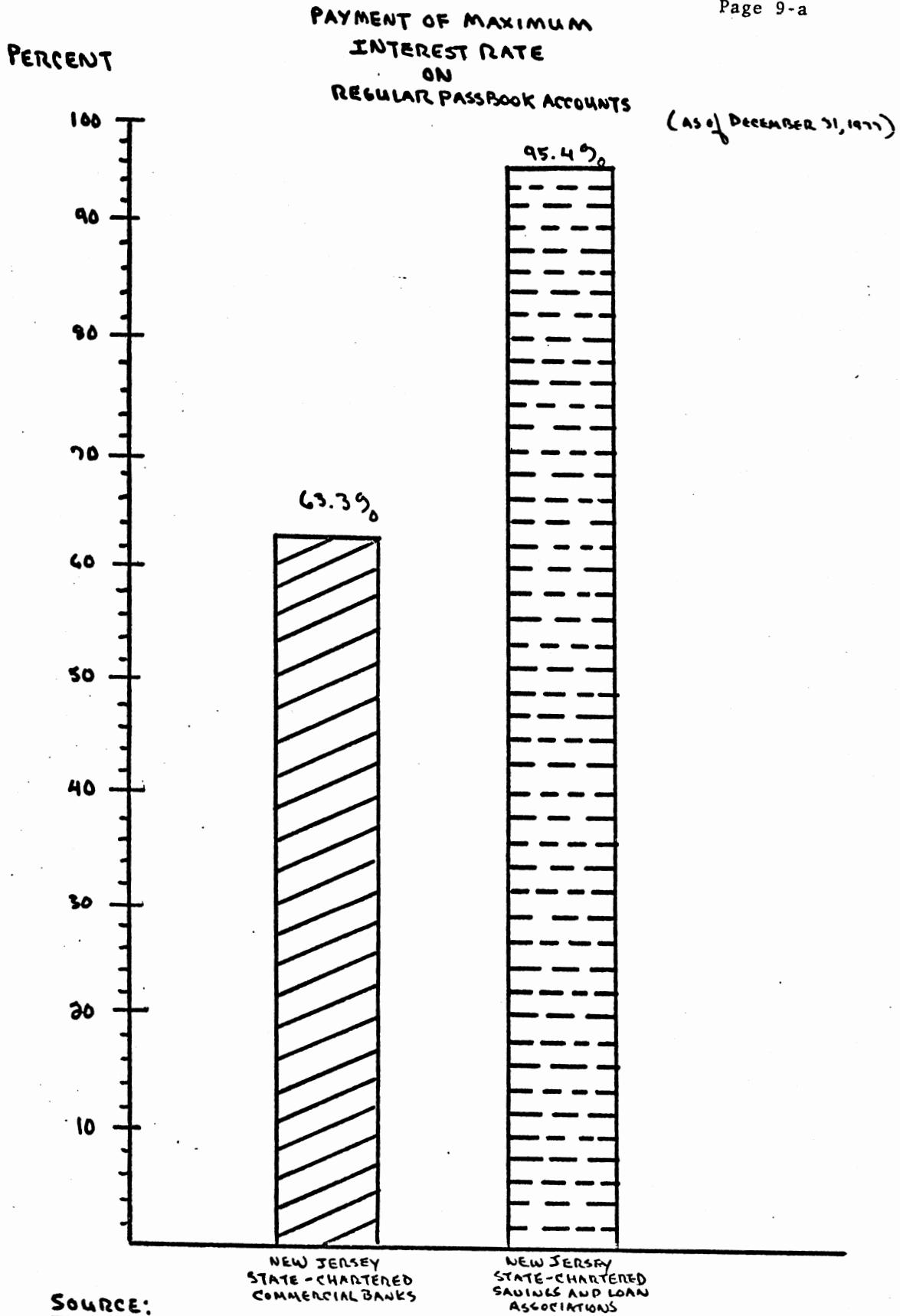
The commercial banking industry has attempted to mislead the Legislature by saying that Regulation Q gives savings and loan associations an unfair advantage.

It would follow from that argument that commercial banks in fact desire to pay the slightly higher rate accorded to savings and loan associations and savings banks. However, as Exhibit XI shows, only 63.3 percent of New Jersey's state-chartered commercial banks were actually paying the maximum rate (5 percent) allowed by Regulation Q. Meanwhile, 95.4 percent of New Jersey's state-chartered savings and loan associations were paying the maximum interest rate (5-1/4 percent) permitted under Regulation Q. In both cases the figures shown are as of December 31, 1977.

Perhaps commercial banks really believe that they have a rate disadvantage. If this is the case, much of the disadvantage is self-imposed.

Because Regulation Q and its future is in the province of the United States Congress (which just extended it for two years), the relationship between it and A-63 is, to say the least, obscure. As further proof that the bankers' contention is invalid, we only have to look at savings banks in New Jersey which enjoy the so-called "savings rate advantage" and also have checking account authority.

The truth is that even with the authority to offer checking accounts to its customers, savings and loan associations would still not be able to equal the ability of commercial banks to maximize their return on investments while minimizing their federal tax liability. Even with personal checking accounts, which are generally regarded more as a customer service than a source of new profit, savings and loan associations will not be able to increase their earnings or their ability to raise capital to the level of commercial banks. We believe the competitive equality myth sidetracks the important differences among the various types of institutions.



**SOURCE:**

NEW JERSEY DEPARTMENT OF BANKING  
ANNUAL REPORT: DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

The Legislature, we believe, should concentrate on what we regard as the more important public policy goal of making certain that each type of financial institution fulfills the responsibilities of its charter and the needs of the New Jersey public. Savings and loan associations, which are the primary source of home mortgage funds in the state, believe that the record shows they have been living up to the requirements of their charters. Unfortunately, present State law prohibits them from satisfying the demands of their customers for checking accounts.

Commercial banks are commercial lenders and specialists, and the record shows that they are living up to that mandate. The statutory powers of these radically different types of financial institutions cannot be standardized without taking the drastic step of eliminating all distinctions between them. The laundry list of powers (Exhibit XII) reserved to the commercial banking industry contains dozens of services and authorizations which would be inappropriate for savings and loans. Many of these powers relate to the commercial lending and investment fields which are--and should be--the province of commercial banks. But in the field of consumer services we believe that the more competition is stimulated, the better the public will be served. (See Exhibit XII attached.)

It is not an over-statement to say that the commercial banking industry has launched its no-holds-barred campaign to kill A-63 and thereby pre-empt savings and loan associations from providing a customer service for the sole reason of causing a major shift in savings deposits from savings and loan associations to commercial banks. We ask the members of this Committee to keep in mind that the commercial bankers will succeed to one degree or another in causing this major shift with or without the passage of A-63, by means of the automatic transfer from savings to checking system which began on November 1.

We believe the Committee should take into account the adverse impact on home financing that the Automatic Transfer System will have as soon as it becomes truly operable in New Jersey. Representatives of the commercial banking industry have themselves said that automatic transfers in fact amount to interest payments on demand accounts. These new accounts, available only at commercial banks and savings banks, will give these institutions the ability to attract savings and loan account holders away from our institutions where simple demand accounts are not even available. The end result will be a severe shortage of home loan funds which in turn will stem the expansion of the housing industry in New Jersey.

The New Jersey Savings League emphasizes that savings and loans are not opposed to the payment of interest on checking accounts. We believe consumers of New Jersey deserve to earn every penny they can on even their working household accounts. A-63, in fact, contains a provision which would permit savings and loan associations to pay direct interest on checking accounts when federal law is changed to make it possible. The New Jersey Bankers Association mounted an intensive lobbying effort in the United States Senate to kill a bill which would have given national banks and federal savings and loan associations the same powers which they received in New York to offer interest-bearing Negotiable Orders of Withdrawal accounts. The bankers lobbying effort was an unqualified success in Washington. By their actions they have prevented New Jersey residents from receiving interest on their checking accounts.

SUMMARY OF POWERS OF COMMERCIAL BANKS

- I. Powers Common to Both Commercial Banks and Savings and Loan Associations:
  1. Federal direct deposit services (savings accounts only for savings and loans)
  2. Mortgage loans
  3. Accept savings deposits
  4. Provide tax depository services
  5. Individual Retirement (IRA) and Keogh Accounts
  6. Own service corporations
  7. Education loans
  8. Installment loans (10% limitation for savings and loans)
  9. Home improvement loans
  10. Construction loans
  11. Mobile home loans
  12. Sell travellers checks
  13. Sell, redeem U. S. Savings Bonds
  14. Issue money orders
  15. Safe deposit boxes
  16. Invest in U. S. Government and Municipal securities (limited for savings and loans)
  17. Loans on savings accounts
  18. Loans on securities
  19. Loans on building lots
  20. Camp meeting leaseholds
  21. Invest in bankers acceptances
- II. Commercial Banking Powers Not Available to Savings and Loans
  22. Commercial loans including:
    - a. Pipeline loans
    - b. Oil tanker loans
    - c. Commercial fishing loans
    - d. General inventory loans
  23. Railroad equipment bonds
  24. Business lines of credit
  25. Invest in balances due on conditional sales
  26. Underwriting corporate bond issues
  27. Underwriting corporate stock issues
  28. Invest in debentures
  29. Act as stock registrar and transfer agent
  30. Corporate dividend disbursement
  31. Invest in corporate bonds
  32. Pension advisory services
  33. Check processing services
  34. Organize small investment company
  35. Issue bankers acceptances
  36. Estate administration
  37. Estate settlement services
  38. Serve as executor
  39. Invest in trade acceptances
  40. Serve as trustees and fiduciaries

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II. Commercial Banking Powers Not Available to Savings & Loans (Cont'd)

41. Invest in bills of exchange
42. Prepare state and federal tax returns
43. Invest in drafts
44. Invest in and manage common trust funds
45. Invest in promissory notes
46. Floor plan financing
47. Factoring
48. Trade in Federal funds
49. Deal in U. S. Government obligations
50. Operate under a holding company
51. Own stock in safe deposit companies
52. Purchase stock in a fiduciary institution
53. Bridge loans
54. Act as fiscal agent for government entities
55. Depository under the Federal Bankruptcy Act
56. Provide computer services
57. Lease computer time
58. Provide payroll services
59. Provide armored car services
60. Issue travellers checks for sale by others
61. Act as receiver or trustee in bankruptcy proceedings
62. Provide investment banking services
63. Invest in equity stock
64. Make second mortgages
65. Provide international banking services
66. Provide correspondent banking services
67. Issue cashiers and treasurers checks
68. Investment advisory services
69. Buy and sell gold, silver & foreign coins
70. Overdraft or advance loans
71. Issue corporate letters of credit
72. Issue personal letters of credit
73. Transmit funds directly
74. Guarantee signatures and endorsements
75. Issue credit cards
76. Corporate trust services
77. Underwrite municipal bonds
78. Export, import financing
79. Purchase, sell foreign currency
80. Maintain foreign branches
81. Securities redemption
82. Loans on life insurance policies
83. Business equipment leasing
84. Collection of payments for others
85. Business checking accounts
86. Personal checking accounts
87. Warehousing mortgage and other loans
88. Loans on accounts receivable

SOURCE: New Jersey Banking Act of 1948 (amended)  
New Jersey Savings and Loan Act of 1963 (amended)

The myth the bankers have created, unfortunately, has convinced some that savings and loans are out to drain the funds from commercial banks, when in fact the exact opposite is true. As automatic transfer competition within the commercial banking industry and between the commercial banks and the savings banks becomes more heated, we believe there will be a rapid shift of funds from savings and loans to these other types of financial institutions as the customers seek to earn interest on their working capital. The impact of such a savings drain on the housing and related industries of New Jersey will be devastating. It is the home buying public who will suffer along with these vital industries as the availability of mortgage funds diminishes.

The attitude of the commercial banking industry is summarized in the remarks of the New Jersey Bankers Association President in the October 20, 1978 edition of The Star Leger in Newark, which said: "The Bankers Association's President Forrey said yesterday that NOW account authority granted to national banks in New Jersey would mean little since linked accounts which they will be permitted to offer effective November 1 accomplish the same effect of paying interest on checking accounts."

We ask the members of the Committee not to be taken in by the "Myth of Competitive Equality" and the myth of commercial bankers' exclusive right to transaction account authority. The question here is not whether savings and loan associations or commercial banks do more than one another in providing growth and stability to the New Jersey economy. The question here is, should the commercial banking industry continue to pre-empt the delivery by savings and loan associations of a popular service to the people of New Jersey.

#### RECENT DEVELOPMENTS BEARING ON THE NEED FOR A-63

In recognition of the adverse impact that bank-dominated Automatic Transfer Systems (ATS) will have on housing in New Jersey and the nation, the Federal Home Loan Bank Board proposed on November 1 regulations which would give federally chartered savings and loan associations the power to offer a watered-down version of ATS.

Bank Board Chairman Robert McKinney said the new regulation was necessary "to ensure that the housing finance industry remains safe and sound. Until the Congress grants Negotiable Order of Withdrawal account authority for all savings associations nationwide, this is our only alternative," he said.

The interest rate differential which has been so vehemently attacked by commercial bankers would be eliminated for the new payment order accounts, so that the 22 federal savings and loans in New Jersey would only be able to pay 5% annual interest on them to their account holders.

The holder of a payment order account would receive a package resembling a checkbook containing payment orders to be drawn on the account. The orders could be given to merchants or other parties to pay bills and processed through normal check-clearing procedures. The Bank Board said they hope to have the new accounts in place by December 1.

Another recent development concerning the impact of commercial bank Automatic Transfer Systems occurred on October 31, when a Federal Court in Washington, DC rejected a legal challenge by the U. S. League of Savings Associations of the legality of automatic transfer services. The federal judge ruled that "automatic funds transfer regulations do not violate the statutory prohibition against the payment of interest on demand deposits or against negotiable instruments drawn on savings deposits. This result is supported by the convenience and other benefits AFT services will produce for bank customers and by the role such services will play in reducing the number of checks returned for insufficient funds."

Although the New Jersey Savings League was not a party to the suit challenging the Automatic Transfer System Regulations and although the League believes payment of interest on checking accounts to be a proper benefit to savings and loan account holders, we nevertheless feel that such one-sided regulations will result in an unnecessary outflow of funds needed for housing in New Jersey.

In the light of the facts presented in this statement, the New Jersey Savings League respectfully urges the Committee to help save the housing industry in the Garden State by reporting A-63 favorably for a floor vote in the Senate.

**SOARING LOAN RATES, CHECKING AUTHORIZATION****Events stun the USLSA convention**

By ALEXANDER MILCH

DALLAS — It was indeed the week that was — at the annual convention of the U.S. League of Savings Associations (USLSA).

There were startling developments in checking authorization and potentially soaring interest rates of a nature affecting savings and loan associations in New Jersey and elsewhere.

"I never saw anything like it," said Norman Strunk, executive vice president marking his 40th year with the league. "It was enough to make one's head swim."

• As predicted exclusively by The Star-Ledger, Robert H. McKinney, chairman of the Federal Home Loan Bank Board (FHLBB) unveiled an answer to the automatic transfer service (ATS) between savings and checking accounts just put into effect at many banks.

He announced that as a competitive answer to ATS, the country's 2,012 federally-chartered S&Ls (22 of them in New Jersey) would be authorized to provide their depositors with a form of withdrawal order ("it will look like a check and smell like a check" said one of his aides).

• A sharp tightening of credit, and therefore higher interest rates for less available mortgages, was predicted on all sides in reaction to President Carter's surprise announcement of a 1 per cent increase in the Federal Reserve discount rate to 9.5 per cent, with New Jersey especially affected because of its mortgage usury ceiling, fixed by state law at the same 9.5 per cent. The discount rate is the charge made by the Fed for borrowing by banks.

The new service for the federal S&Ls, to be called the payment order account (POA), will enable millions of customers in participating associations for the first time ever to send payments to creditors from out of 5 per cent interest-bearing transaction accounts using nonnegotiable, nontransferable orders for the purpose.

Except for degree of negotiability, it would be like a NOW) for negotiated order of with-

drawal) account available by edict of Congress to banks and S&Ls in New England and New York. This too pays 5 per cent interest and can be drawn against by check-like instruments.

POAs would make ATS unnecessary for S&Ls since interest would be paid directly on the savings assigned to withdrawal purposes, instead of indirectly as in the case of ATS.

"Checks" issued under POA would be honored at the S&L involved, or by deposit to the recipient's credit at his own bank — provided the bank accepts it. The FHLBB indicated it expects this will be the case.

"You know good and well they'll be negotiable," was the comment here of A. Milligan, immediate past president of the American Bankers Association.

"Until Congress grants NOW authority for all savings associations nationwide, this is our only alternative," said the McKinney announcement. "We must exercise our authority to ensure that the housing finance industry remains safe and sound."

The USLSA, which just lost a suit in federal court in Washington against ATS rights for banks, was not enthusiastic over POA. With a membership of 4,462 S&Ls, most of which are small operations not attuned to any venture into checking, it said in a statement that "we doubt it (POA) will be any more than a very partial answer to the competitive imbalance that ATS has created."

City Federal S&L of Elizabeth, largest in New Jersey with deposits well in excess of \$1 billion, will be ready with POAs the moment they go into effect. David W. Matchett, executive vice president, said yesterday.

"Though we would prefer NOW accounts to serve the needs of our customers, we've been working for this kind of authority for the past five years," he said.

Proposed POA regulations were issued by FHLBB for a 20-day comment period in connection with the McKinney announcement. It is expected they will be adopted and put into ef-

fect around Dec. 1. Fees will be allowed, with S&Ls devising their own requirements for minimum balances or service charges.

"I'm both delighted and apprehensive," said Edmond V. Lawlor Jr., president of the New Jersey Savings League, concerning the two major developments.

"I'm happy because POA for federal S&Ls should help convince the New Jersey Senate that it should approve legislation already passed by the Assembly granting checking account rights to state-chartered S&Ls," he said. "This would only be fair considering that federal S&Ls will have similar rights through POA."

"I'm apprehensive because high interest rates will mean a lessening of mortgage money availability in New Jersey. High-cost money such as we get from six-month certificates with interest tied to U.S. Treasury bill rates can't be used for mortgages, considering our 9.5 per cent usury ceiling.

"In particular, our state S&Ls won't be able to get a normal flow of deposit funds for housing use if competing federal S&Ls can offer the new POA service with its ability to provide convenient withdrawal by check-like drafts issued from the outside. Our state S&Ls will have to depend heavily on repayments from existing mortgages, which run about \$2 billion a year, to meet mortgage commitments."

## FHLBB Offers S&L Payment Order Power

By PHIL BATTEY

WASHINGTON — The Federal Home Loan Bank Board Wednesday approved publication for comment of a regulatory change which would allow Federal savings and loan associations to offer customers a new account for third-party payments that would be subject to withdrawals by a non-negotiable, nontransferable order.

The proposed new regulation would limit to 5% the interest which the institution may pay on such an account.

The deadline for comment is Dec. 1.

The action came in response to a Federal court decision Tuesday that upholds regulators' legal right to authorize commercial banks to offer automatic transfer services of funds from savings to checking accounts.

"Until the Congress grants negotiable order of withdrawal account authority for all savings associations nationwide, this is our only alternative," Robert H. McKinney, FHLBB chairman, said.

"What we have here is, in effect, a non-negotiable NOW account," Mr. McKinney said.

The agency said it had legal authority to authorize such an account under a 1968 amendment to the Homeowners Loan Act of 1933.

That section states savings accounts at Federal S&Ls shall not be subject to checking or to withdrawal or transfer on negotiable or transferable orders or

(Continued on page 16)

NOVEMBER 2, 1978

### McKinney . . .

(Continued from page 1)

authorizations, but "the Board may by regulation provide for withdrawal or transfer of savings accounts upon non-transferable order or authorization."

The agency said that a named payee could present the payment order at the S&L on which it is drawn and receive immediate payment. If an association designs its system so that these drafts are payable through a commercial bank, with that bank's routing number encoded on the draft, the agency said any commercial bank could process these items for the association.

The new accounts are limited to those held by individuals or by nonprofit organizations.

Currently, S&L third-party payment services require a preauthorization between account holders and associations for regular, recurring payments to specific creditors. The new system would allow a customer to order withdrawal of funds from his account through a payee with none of these limitations.

The FHLBB staff noted that although the proposed changes would not directly affect state-chartered S&Ls, some states have equalization statutes that allow their institutions the same powers as Federal ones. ■

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## Court Upholds ATS, Rejects USLSA Plea

By PHIL BATTEY

WASHINGTON — A Federal court judge here Tuesday rejected a legal challenge by the United States League of Savings Associations to bank regulatory approval of automatic transfer services scheduled to go into effect Wednesday.

In a memorandum released with his order in favor of the regulators, Judge Oliver Gasch, U.S. District Court Judge for the District of Columbia, concluded. "The court finds that automatic fund transfer regulations do not violate the statutory prohibition against the payment of interest on demand deposits or against negotiable instruments drawn on savings deposits. This result is supported by the convenience and other benefits AFT services will produce for bank customers and by the role such services will play in reducing the number of checks returned for insufficient funds."

The Federal Reserve Board approved the services last May for its member banks, and the Federal Deposit Insurance Corp. soon followed for commercial banks that

(Continued on page 8)

are not members of the Fed and for the mutual savings banks it regulates.

The USLSA then filed suit challenging the regulations because, the trade group said, they violate the Federal prohibitions against payment of interest on demand deposits and against withdrawal by negotiable instruments from interest-bearing savings deposits.

The trade group, representing approximately 4,400 state and Federally chartered savings and loan associations, characterized the service as a "device" for allowing banks to circumvent those prohibitions.

The regulators denied those charges and maintained that the regulations preserved the distinction between interest-bearing savings deposits and non-interest-bearing demand deposits because the rule required the bank to reserve the right to require a depositor to give at least 30 days notice of withdrawal from ATS accounts.

The regulators also argued that there was no violation of the prohibition against third-party payment from savings deposits because separate savings and checking accounts must be maintained and negotiable instruments are to be drawn solely against the checking account.

The judge agreed with the regulators on both issues and emphasized in his memorandum that "although other courts interpreting unrelated provisions of the banking laws have emphasized that the form of a bank service must not be allowed to mask its substance, this court finds that the AFT regulation do not constitute a device for the payment of interest on demand deposits."

The regulations permit an individual depositor at a Federally insured bank to arrange, by a prior written agreement, for the automatic withdrawal of funds from his savings account and the transfer of those funds to a demand deposit when that deposit account dips below an agreed upon level.

On March 15, 1976, the Fed and the FDIC published for comment similar proposals but did not act upon them. Last February, when the Board published the current regulatory changes for comment, the agency received almost 1,400 comments, a record.

In Dallas, where the USLSA is holding its annual convention, the League said:

"We feel that Judge Oliver Gasch was wrong in his decision that this did not constitute a device to pay interest on checking accounts in contravention of Federal statutes."

"Our position in this remains unchanged and we are going to take it to a higher court," the trade association said.

In a statement also issued in Dallas after the announcement of the court decision, Robert H. McKinney, FHLBB Chairman, said the Bank Board will meet Wednesday at 3 p.m. to consider new regulations on third party payments for savings and loans.

He said that the court decision "points out the need for immediate action by the Bank Board. I have waited until this moment to schedule our meeting because of my desire to in no way influence this decision." ■

## Bill-Paying Account That Bears Interest Is Planned for S&Ls

By a WALL STREET JOURNAL Staff Reporter

WASHINGTON—The Federal Home Loan Bank Board proposed to let customers of savings and loan associations pay bills through a new type of interest-bearing account.

The proposal for new accounts is a "necessary action to partially offset the competitive advantage" commercial banks have under new authority to transfer customers' funds from savings to checking accounts, Bank Board Chairman Robert McKinney said.

The automatic transfer system for commercial banks took effect yesterday after a federal court here ruled Tuesday that the Federal Reserve Board and the Federal Deposit Insurance Corp. had authority to issue such rules.

The Bank Board's proposal, on which public comments will be received until Dec. 1, would create a new "payment order account." S&Ls couldn't pay more than 5% annual interest on the accounts, equal to the rate on ordinary bank savings accounts.

The holder of such an account would receive a package resembling a checkbook, containing payment orders to be drawn on the account. The orders could be given to merchants or other parties to pay bills.

The orders are nonnegotiable and non-

transferable. But, the Bank Board said, the recipient could present the order to the issuing S&L and receive immediate payment.

More importantly, the new orders apparently could be handled through the commercial banking system, the Bank Board indicated. If an S&L arranged for the orders to be payable through a commercial bank, "with that bank's routing number encoded on the draft, then any commercial bank could process these items for the association."

The Bank Board said the new accounts wouldn't eliminate the need for checking accounts. "A checking account still has certain advantages in terms of its negotiability, its present lower cost as a funds transfer mechanism, and its relationship to other services offered by particular financial institutions."

Mr. McKinney said he hopes to have the new accounts authorized by year-end. The proposed rule would apply to federally chartered S&Ls and to state-chartered institutions where state law permits.

A similar type of payment has been used in Washington State by state-chartered S&Ls, but commercial banks have refused to handle the orders. Officials of the U.S. League of Savings Associations, meeting in Dallas, weren't certain at first glance whether the Bank Board's proposed orders would stand up as nontransferable and non-negotiable, as required by federal law, and even if they meet those standards, whether they'll be handled through commercial banks.

Nonetheless, S&Ls fear that the commercial bank automatic transfer system will hurt thrift institutions by diverting savings deposits to banks. The league's suit that

sought to block the automatic bank transfers asserted they illegally provide payment of interest on checking accounts. The league plans to appeal the recent decision allowing such transfers.

The new accounts would move in the direction of NOW, or negotiable orders of withdrawal, accounts, which are legal in six New England states and New York. NOW account drafts can be handled through the commercial banking system.

S&Ls could charge for the new service.

In explaining the new system, the Bank Board said, "There is a long and considerable history of nonmember financial institutions clearing items by the Federal Reserve System through correspondent relationships." Under Federal Reserve rules, "these instruments could be cleared as cash items through the Federal Reserve System," the Bank Board stated.

Late yesterday, officials of the U.S. League of Savings Associations said, "How useful this regulatory proposal-cq-will be will be determined only in the marketplace. We, frankly, doubt that it will be any more than a very partial answer to the competitive imbalance that the banks' automatic transfer system has created."

### Petrolane to Acquire a Business

LONG BEACH, Calif. — Petrolane Inc. said it agreed to acquire the propane distribution business of Colonial Gas Energy System, Lowell, Mass., for an undisclosed amount of cash.

The transaction is subject to various approvals and execution of a formal agreement.

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## Fidelity enters electronic age

By ALEXANDER MILCH

Electronic-age banking for the ordinary bank customer will become a reality on the largest scale yet in New Jersey starting Oct. 17.

That is the date when the \$1.851-billion-asset Fidelity Union Bancorporation, the state's fourth largest bank holding company, will open 16 "Maxi-Teller" banking centers in the northern and central parts of the state.

Able to use the \$1 million system of automated teller machines (ATMs) which will then become available on a round-the-clock basis will be 125,000 regular customers of three of the Fidelity Union's member banks.

The banks are Fidelity Union Trust Co. of Newark, Colonial First National Bank of Red Bank and National Bank of New Jersey, Piscataway. About 75 per cent of their customers, selected by nearness of their zip codes, are the immediate designees for the new service.

By next year, 29 additional banking centers will have been added to the system — which will then be using \$2 million worth of computer hardware — and all 250,000 depositors in all member banks of the holding company will be able to use the Maxi-Tellers. (The added banks will be Burlington County Trust Co. of Moorestown and Bank of West Jersey, Delran — which are to be merged as of Jan. 1 — and the Fidelity Union Trust Co., N. A., of Morristown.)

To get the Maxi-Teller program under way — nothing quite like it exists in New Jersey or in most of the rest of the country — Fidelity Union is currently undertaking an unprecedented mass mailing of plastic encoded cards to the 125,000 depositors, this without any check of their credit worthiness.

Such mailing in the early days of bank credit cards caused disastrous losses to banks in many parts of the country because the cards when stolen were like blank signed checks.

The distribution this time is quite different; the Maxi-Tellers are on-line (directly connected) with bank computers, and all deposits, withdrawals and transfers between checking and saving accounts will be automatically screened. Overdrafts from checking accounts for example would be possible only for those who have established lines of credit with their bank.

In the interest of security, there will be a separate mass mailing of personal identification numbers (PINs) to depositors. PINs in the case of Maxi-Tellers will be four-digit numbers (or letters) which must be entered into the ATM along with the magnetic strip of the plastic card in order to activate it.

As another precautionary measure, all persons using Maxi-Teller installations will be photographed. These banking centers are contained within existing bank offices, and can be entered during off-hours only through use of the plastic card on a door lock.

The fact that the Maxi-Tellers are on-line — which practically all existing ATMs in New Jersey are not — is enabling Fidelity Union to increase the daily and weekend withdrawal limit to \$300, as against the present \$100 maximum on the old-type off-line machines the holding company now has in use in Newark and Little Silver.

The Maxi-Tellers will have another feature not possible with off-line ATMs. Whenever a withdrawal or a deposit is made, the receipt will show the balance in the checking or savings account involved.

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## Bank Board Is Set to Help S&Ls Compete With Banks' Savings-Checking Accounts

By JAMES C. HYATT

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The Federal Home Loan Bank Board may act this week to help the savings and loan industry compete with commercial banks' new authority to mix savings and checking accounts.

The Federal Reserve Board early this year voted to let banks make automatic transfers from savings to checking accounts for customers, starting Wednesday. Banks aren't allowed to pay interest on checking accounts, but the new procedure will let depositors hold their checking balances at a minimum and keep more of their funds in interest-bearing savings accounts.

S&L's fear this will divert sizable sums from the thrift industry. The U.S. League of Savings Associations has filed a lawsuit seeking to prevent the new authority from taking effect. That case is pending here before Federal District Judge Oliver Gasch. A ruling is expected this week.

### Bank Board Moves

If the rules do take effect, Bank Board officials are considering what sort of steps could be taken to ease the impact on S&Ls. Bank Board Chairman Robert McKinney opposed the automatic transfer proposal earlier this year, and recently told an industry convention that while the Bank Board "cannot authorize true checking accounts for thrifts, there are other alternatives that we have, and we have one in mind."

The board is expected to meet this week to propose regulations addressing the problem.

The board's options are limited, although a 1968 housing law does give it authority to "provide for withdrawal or transfer of savings accounts upon nontransferable order or authorization."

### Language Unclear

The meaning of that language is unclear, but former Bank Board Chairman Preston Martin attempted in 1970 to use that authority to create a new consumer bill-paying service.

His proposal permitted a depositor to arrange in advance for an S&L to pay bills from utilities, department stores and other creditors. It also called for S&Ls to sell "nontransferable orders" to customers. The orders, which would look like checks, could be used by account holders to pay bills; the order couldn't be processed through the banking system, however.

That proposal was sharply limited, although the Bank Board eventually authorized more limited services such as "telephone transfer" in which customers can direct an S&L over the phone to pay routine bills.

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# NYS Banks and Thrifts, With NOW Authority, Change ATS Tactics

By LAURA GROSS

NEW YORK — Reacting both to competitive pressures and to the authorization from Congress 11 days ago to offer negotiable order of withdrawal accounts, New York banks and thrifts are beginning to change already-announced automatic transfer strategies and, in two cases, prices for these services.

Chemical Bank, the state's fifth largest commercial bank and the first in the nation to announce prices for automatic transfers from savings to checking last June, said it will now offer a free ATS to

higher balance customers, impose a 25 cent per check charge for mid-range customers and a monthly maintenance and per check fee for the low balance end of the spectrum.

Chemical's pricing had been \$3 per month and 25 cents each day a transfer is required. Chemical's old plan required customers to maintain a \$500 combined balance in checking and savings to get ATS.

(Continued on page 20)

June, said it will now offer

## NOW . . .

(Continued from page 1)

This pricing will put Chemical in a more competitive position in regards to other plans announced by New York banks and will also allow it to change its ATS to a NOW account with little difficulty once legal technicalities surrounding state-chartered financial institutions' offering NOWs here are cleared up.

Bankers Trust Co., the state's sixth largest commercial bank, is modifying its ATS pricing to bring it more in line with other plans announced in New York City. The bank is studying the programing system implications of NOWs for future action.

The bank's modified price for ATS will be 25 cents per each day a transfer occurs, regardless of the number of checks clearing, on top of current checking charges where the average daily checking balance is below \$800. The charges are, below \$200, \$4 a month; \$200-\$400, \$3 per month; \$400-\$600, \$2 a month and \$600-\$800, \$1 per month.

Bankers has structured pricing to encourage maintenance of high balances in checking, allow consumers to choose what they want to pay in service fees for checking and permit maintenance of the remainder in the savings-portion of the automatic transfer service.

BT's old ATS plan would have cost \$3 per month and 25 cents for each day a transfer was required with checking charges added to this except for those consumers maintaining an average daily checking balance of \$800.

East New York Savings Bank, New York's 26th largest mutual, announced Thursday it will offer a \$1,000 minimum balance NOW account for free as soon as President Carter signs enabling legislation. Plans to offer ATS have been scrapped. If a customer's NOW balance should fall below \$1,000, East New York plans on not paying interest from the first day of the preceding quarter until such time as the balance reaches \$1,000 again, when interest will be reinstated.

New York State law also authorizes payment of interest monthly, but in that case, a spokesman for East New York said, it can only be credited to the first day of the month preceding withdrawal.

Manufacturers Hanover Trust Co., the state's third largest commercial bank, while it will still offer its planned ATS, now sees it as an interim step on the way to NOW accounts.

Brochures already sent to checking account customers offer ATS or a telephone transfer option as a way to "earn interest as you write checks," a positioning statement very close to the NOWs the bank plans on offering later.

MHT's prices are: free with over \$1,000 minimum in savings; 25 cents per each day any number of transfers occurs with balances between \$500 and \$1,000 and \$5 per month and 25 cents per transfer day for levels below \$500. The bank will probably have to institute a charge in place of the transfer charge in order to change the ATS to a NOW account.

Citibank, which announced its ATS would cost \$5 per month for customers maintaining combined checking and savings balances of \$1,000 and under and would be free for those maintaining balances of \$5,000 and over, is re-evaluating these plans at this time.

Marine Midland Bank, Buffalo, with 83 branches in downstate New York, will offer ATS free to customers maintaining \$3,000 minimum in savings and charge 25 cents for each day a transfer occurs and \$3 per month for balances under \$3,000.

Robert L. Walker, senior vice president, noted in a recent interview that as far as NOWs are concerned, the bank "intends to encourage a nonproliferation of paper." He said he could see Marine's ATS product merging into a NOW account later in the year.

European American Bank & Trust Co., the state's 11th largest commercial bank, still plans to offer ATS free to customers with balances lower than that.

EAB's posture on marketing ATS, in light of NOWs, is to implement automatic transfers carefully and with less advertising than when they were the only service of this kind New York banks could offer.

Most financial institutions consider NOWs a much more saleable product than automatic transfer services because,

they say, consumers can understand NOWs a lot easier and will feel their savings dollars are less threatened by NOWs than automatic transfers.

Once, bankers say, they have accepted the fact that either service will cause some of their demand deposits to move into savings, costing them interest they then must pay to consumers, it is clear to them that they would rather offer NOWs than try to sell consumers what is in essence a NOW account disguised as a checking account linked to a savings account.

Although it might appear that automatic transfers will be a dead service in New York state now that NOWs are permitted, some financial institutions in New England states, which have had NOWs since 1972, are planning to offer ATS.

One, State National Bank, Bridgeport, Conn., announced an automatic transfer service costing anyone who uses it 50 cents per each day a transfer is required on top of checking charges if a \$300 minimum balance in checking is not maintained.

It seems that the highly competitive nature of financial institution marketing may lead to a proliferation of banks offering both services where that is permitted, at least for the present time, until consumer preference becomes evident.

There is currently a difference of opinion over the narrow legal issue of whether Public Law 93-100, prohibiting payment of interest on demand deposits except for the six New England states and New York, actually authorizes NOWs for state-chartered financial institutions where state legislation and regulations make no particular mention of the subject.

The New York State Banking Department, known to favor competitive equality among financial institutions, is expected to issue a decision shortly clarifying the matter: either New York state-chartered banks and thrifts can offer NOWs under 93-100; the legislature must authorize it, or a banking department opinion or regulation is all that is necessary.

Another possibility is that the department will remain silent on the issue, allowing the development of NOWs among all financial institutions, while carefully watching the marketplace.

Thursday, October 26, 1978

## Girard Sets ATS, Check Earning Credit

Special to the American Banker

PHILADELPHIA — Concurrent with its announcement unveiling plans to offer automatic transfers from savings to checking, the \$2.9 billion-deposit Girard Bank here, is implementing a new retail banking price schedule which gives consumers a monthly earnings credit of 5½% on average daily balances in checking accounts.

Banks have long used this method of pricing for business customer accounts, allowing credits on balances that can be used to reduce activity charges. The \$1.9 billion-deposit Northwestern National Bank, Minneapolis, is another which just recently began offering retail customers an earnings credit for checking balances.

Under Girard's new pricing program, the earnings credit is applied to the bank's activity charges on a monthly basis. Customers who sign up for direct deposit of their checks will have the earnings credit doubled to 11% monthly.

Unlike many other banks around the country, Girard's automatic transfer plan gives customers a choice of what kind of balance they will maintain in checking and also of whether they want transfers to be in the exact amount of checks or in multiples of \$50.

"The basic thrust of our program is to provide retail customers with quality ser-

(Continued on page 15)

## Girard . . .

(Continued from page 1)

vice in the most convenient way possible and to create an opportunity for consumer control of most transactions, leading to a fair return on funds," Richard G. Gilmore, executive vice president, retail banking, said of the new plans.

Girard's new pricing plan sets fees for automatic transfers at 10 cents per transfer for each day any number of checks are presented; 15 cents per check; 12 cents per "George" bank-by-phone service payment and \$15 per returned check. There is no fee, and there has not been in the past, for George automated teller machine withdrawals, transfers, deposits or balance inquiries. George bank by phone inquiries and transfers are also free. Girard calls its automated teller machines George and also uses that name for its bank by phone program.

Returned check charges were raised for the new program from \$10 to \$15. Under the old system, customers who signed up for the "Big G" package plan received free checkbooks, travelers checks and free checking with a savings balance over \$200. Free savings was also available with a \$300 average daily balance in checking. Otherwise, checking used to cost \$3 per month.

Philadelphia's First Pennsylvania Bank NA announced it will offer automatic transfers in increment of 150 for a fee of \$1.50 per day of transfer for overdraft checking protection.

But, as three-quarter page ads in Philadelphia dailies proclaim, its InterestPlus account "is still the closest thing to a checking account with interest."

The bank's InterestPlus account are statement savings account paying 5%, from which consumers can transfer funds to checking account without charge by telephone, seven days a week, 24 hours a day.

Charles E. Shanahan, executive vice president and director of marketing, said, "InterestPlus has been an extremely successful retail product because customers retain control of their finances rather than surrender it to a computer."

"Picking up a telephone gives time for second thoughts and helps people discipline their spending," Mr. Shanahan said.

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## BUSINESS/FINANCIAL

# ABA stunned by 'no bounce' revelation

By ALEXANDER MILCH

HONOLULU — Delegates to the 104th annual convention of the American Bankers Association (ABA) were astounded yesterday by a "bombshell" revelation, that no bounce checking is in the works for the country's federally chartered savings and loan associations.

U.S. Comptroller of the Currency John G. Heimann, addressing a forum on competition among financial institutions, disclosed that the Federal Home Loan Bank Board (FHLBB) was preparing an "answer to automatic transfer service (ATS), an innovation involving pre-authorized shifting of funds from savings to checking accounts to meet incoming checks that has been authorized for banks effective Nov. 1.

S&Ls generally do not have checking accounts — by law in the case of the federally chartered — and it is expected

that Robert H. McKinney, FHLBB chairman, will announce an ATS equivalent for S&Ls under his board's supervision at the annual convention of the U.S. League of Savings Associations in Dallas next week.

New Jersey delegates at the ABA gathering were quick to note that the question of checking accounts for S&Ls, which is still being fought on the legislative front in Trenton, would be deeply affected. A bill authorizing S&L checking has passed the Assembly despite strong opposition from the New Jersey Bankers Association (NJBA). It is now awaiting Senate action.

State Banking Commissioner Angelo R. Bianchi said here that the banking department, which favors the bill, is "deeply concerned" over the situation ahead.

"If the 22 federal S&Ls in New Jer-

sey get authority to offer ATS or linked accounts, then I certainly would want the nearly 200 state-chartered S&Ls regulated by my department to have parity," he said.

"Of course, if the checking account bill does pass, then the question of parity would become moot," he said.

Robert C. Forrey, NJBA president, said that banks in New Jersey, many of which have already announced ATS programs for their customers as a means of paying 5 per cent interest on the equivalent of checking accounts, will decide on their course once they see details of the forthcoming McKinney announcement.

"Maybe we'll have to sue the FHLBB," Forrey said. "Our association is opposed to any checking account intrusion into our business by S&Ls so long as they do not pay the same taxes, or maintain the same reserves or keep paying

higher interest rates on savings than we are allowed to pay."

A provision in federal law which created the system of federally chartered S&Ls as a result of the Great Depression does permit a type of non-negotiable payment to be made by federal S&Ls on behalf of depositors.

Gilbert G. Roessner, president and chairman of the \$1-billion-plus City Federal S&L of Elizabeth, had advocated without success for years that the FHLBB use this provision to create a type of checking account for federal S&Ls such as his.

It is believed here that the FHLBB will permit check-like drafts to be issued against savings accounts for use in third-party payments, with the drafts "truncated" or not returned after they have been honored. This is done in the case of check-like share drafts offered of credit unions.

# Regulators See Era of Tougher Competition for Banks, Thrifts

By JOSEPH D. HUTNYAN

HONOLULU — Banks, thrift institutions and credit unions are entering a new era of tougher competition during which their services will become more similar, Federal regulators said here. But each of four federal agency officials had a somewhat different slant on this new era during a panel discussion at the annual convention of the American Bankers Association, this week.

The subject was discussed by John G. Heimann, Comptroller of the Currency; Lawrence Connell Jr., administrator of the National Credit Union Administration; Anita Miller, a member of the Federal Home Loan Bank Board, and William M. Isaac, a director of the Federal Deposit Insurance Corp.

"There is a pronounced trend toward differing institutions' offering the same

(More ABA coverage on pages 3, 48)

services," Mr. Heimann said. "And this is not dictated by statute but by consumer needs."

He said the FHLBB was almost sure to allow S&Ls to offer some kind of checklike service in response to the combination savings-checking accounts which will be allowed banks on Nov. 1. Mr. Heimann said this is only the latest innovation in the move toward uniformity.

Mr. Heimann said the best way to serve

(Continued on page 48)

American Banker

## Competition . . .

(Continued from page 1)

the public would be to accelerate this trend toward more competition by eliminating restrictions on deposit rates and geographical branching limitations, and by broadening the services of all financial institutions.

Mr. Connell told the ABA members that bankers need not fear the power of credit unions in this new era of quickened competition. He said that while CU growth in recent years has been fast, it is not significant because it started from such a small base.

He also noted that one out of five credit unions still has less than \$100,000 in assets, and that 80% of all Federal CUs were still restricted to persons who work at given places.

He agreed that the financial industry was moving toward wide-open competition, but he stressed this would happen even if Congress retains laws limiting savings rates and state branching.

He said technology, such as instantaneous transfer of funds, eventually will wipe out the effect of these restrictive laws even if they are still on the books.

Mrs. Miller declared that while she favored more competition among financial institutions, she was still not convinced

it was a good idea to remove the advantage given to thrift institutions in the deposit-rate structure.

She said that S&Ls were still the primary sources of residential housing funds and that "as much as I favor competition, I have to ask whether society would lose something important if we lost that special talent."

The FHLBB member said that S&Ls would need much broader investment and consumer powers to make up for the loss of the competitive advantage now written into Federal regulation.

Mr. Isaac said he favors abolishing deposit-rate and branching restrictions, but he said government should be cautious about the impact of tougher competition on the solvency of the system.

He noted that during the past five years, the nation has been jolted by the 10 largest bank failures in history, and that the average ratio of risk assets to total assets in the banking system has jumped from 22% in 1945 to 77% in 1978.

Mr. Isaac said he also was concerned that a more competitive environment might endanger existence of the community bank if government were lax about enforcing antitrust restrictions. ■

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## S&Ls in state react to NOW prohibition

By ALEXANDER MILCH

There were repercussions yesterday in New Jersey and Hawaii over little-noticed actions by Congress earlier this week in passing a financial reform measure now awaiting President Carter's signature.

The bill in question was amended at the last moment to deny New Jersey financial institutions the right to offer NOW (negotiated orders of withdrawal) accounts. An additional aspect of the bill granted specific authority to the U.S. Comptroller of the Currency to issue national bank charters limited to trust powers only.

NOW account authority currently extends only to five New England states. NOWs are savings accounts against which checks may be drawn, permitting interest to be earned until the last possible moment. Checking accounts do not earn interest.

The financial package measure — which included such things as an extension of the interest rate differential for thrift institutions and providing for federal charters for mutual savings banks — contained a provision extending NOWs to federally chartered savings and loan associations and nationally chartered commercial banks in New York and New Jersey.

But New Jersey was dropped quietly from the provision after some intensive lobbying in Washington by Anthony D. Schoberl, a Somerset banker, and Robert C. Forrey, chairman and president respectively of the New Jersey Bankers Association (NJBA). They contended that NOWs would be another example of "unfair" advantages granted thrift institutions.

Gilbert G. Roessner, president and chairman of the City Federal S&L of Elizabeth, charged yesterday in a statement released in Honolulu, where he has been attending the annual convention of the National Savings and Loan League, that "consumers in New Jersey have lost out on a major new financial service."

"NOW accounts would provide that

return — and Congress hopefully will recognize this fact when it returns for its next session in January," Roessner added.

By giving NOW account authority to New York federally chartered institutions, the measure seeks to alleviate the condition in that state created by Albany legislation last year that granted checking accounts rights to state-chartered S&Ls and savings banks. Federally chartered S&Ls, excluded from this authority, were hurt competitively.

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But the pinch will now extend to New Jersey, it was stressed yesterday by Edmond V. Lawlor Jr., president of the New Jersey Savings League, trade organization of the state's S&Ls.

"We are very much concerned," he said, "because as of Nov. 1 not only will all banks be able to provide linked accounts (pre-authorized automatic transfers from savings to checking accounts), but also our S&L competition in New York will be offering NOW accounts to commuters from New Jersey who work in New York."

"S&Ls in New Jersey, whether federally or state chartered, will be unable to compete, because none of us can offer linked accounts since we do not have checking account authority, nor will any of us be able to offer NOW accounts."

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Lawlor noted that a similar situation applies to the southern part of the state, because state-chartered S&Ls in Pennsylvania recently have been granted "withdrawal by assignment" authority, similar to a checking account.

The Bankers Association's Forrey said yesterday that NOW authority granted to national banks in New Jersey would mean little since linked accounts that they will be permitted to offer effective Nov. 1 accomplish the same effect of paying interest on checking accounts. Fees charged can be about the same for either service, he said.

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## More banks disclose hefty earnings hikes

New Jersey's commercial banks continued to report sharply higher third quarter earnings yesterday, with the gains generally attributed to better economic conditions and higher interest rates.

Fidelity Union Bancorporation of Newark reported record results for the third quarter and first nine months while Greater Jersey Bancorporation of West Paterson said third quarter income was up by 59 per cent and First Peoples Bank of New Jersey in Haddon Township reported a 29 per cent rise in earnings for the three-month period.

On Monday four large institutions — United Jersey Banks, Horizon Bancorporation, Midlantic Banks Inc. and Heritage Bancorporation — reported third quarter income rises of 35 per cent or better.

Fidelity Union's earnings before securities transactions for the quarter ended Sept. 30 were \$5.2 million, or \$1.35 a share, an increase of 25 per cent compared with last year's \$4.1 million, or \$1.08 a share. After securities transactions, net income was \$5.3 million, or \$1.37 a share, compared with \$4.3 million, or a \$1.11 a share last year.

Fidelity Union Chairman C. Malcolm Davis said the record results have "benefited both from the acquisition in July of the Burlington County Trust Co. and a steady improvement in our net interest margin due chiefly to a higher prime lending rate, increased loan demand and higher demand deposits."

Greater Jersey Bancorporation said third quarter earnings before securities transactions were \$1.17 million, or 60 cents a share, compared with \$739,062, or 38 cents a share, in 1977. Net income after securities transactions was \$1.02 million, or 51 cents a share, compared with \$765,552, or 39 cents a share, last year.

Greater Jersey's president and chief executive officer, Ralph A. Corbin, at-

tributed the earnings increase to a generally improved economy, better earnings on loans and the holding down of operating expenses.

At First Peoples, net earnings for the third quarter were \$1.3 million, or 95 cents a share, compared to \$1.03 million, or 77 cents a share, for the same period last year.

William G. Rohrer, First Peoples president and chairman, commented, "We're well on our way through a record year in both performance and growth."

Meanwhile, the nation's three largest banks — BankAmerica Corp., Citicorp and Chase Manhattan Corp. — also reported large third quarter gains and attributed the enhanced profits to higher interest rates and loan volumes.

BankAmerica announced third quarter income of \$147.3 million, or \$1.01 a share, compared to \$110.4 million, or 76 cents a share, last year. BankAmerica is the holding company for the country's largest bank, Bank of America in San Francisco.

Citicorp, which owns Citibank, reported earnings of \$119.1 million, or 96 cents a share, for the third quarter, up from \$87.8 million, or 70 cents a share, for the same period last year.

Chase Manhattan, the nation's third largest bank, said income for the quarter was \$50.3 million, up 62 per cent from \$31.1 million a year earlier. Per share earnings rose to \$1.41 compared with 91 cents for the third quarter of 1977.

All three banks said profits for the first nine months of the year rose also.

Last week all major banks hiked the prime lending rate, the interest charged to the banks' best customers, to 10 per cent, the highest level in nearly four years. The prime rate, on which all other bank loan rates are based, has risen sharply since last Jan. 1 when it stood at 7.75 per cent.

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10/17/78

## Pa. S&Ls Allowed Withdrawal Accts.

THE AMERICAN BANKER  
Monday, October 16, 1978

Special to the American Banker

HARRISBURG, Pa. — Pennsylvania Banking Secretary William E. Whitesell told the Pennsylvania Savings League that state-chartered savings and loan associations, subject to promulgation of final regulations, may offer no-interest withdrawal by assignment account.

The regulations are expected to be published in about two weeks in the Pennsylvania Bulletin. After a 30-day comment period, they would be effective immediately. If no substantive changes had to be made.

Mr. Whitesell said, however, that savings and loans may not issue the non-interest bearing negotiable order of withdrawal accounts being offered by mutual savings banks in Pennsylvania.

The WAA items would be payable through a pass-through commercial bank, and would be charged against a statement savings account of the holder when they reach the savings association.

Mr. Whitesell said the Pennsylvania Savings and Loan Code contains no requirement "that a withdrawal form be presented personally by the account holder, nor is there any specific prohibition or restriction upon a transfer of authorization to a third party, e.g. through a WAA item. For the purpose of withdrawing a specified

amount from a savings association account."

He said the department "has broad regulatory authority" through the general declaration of purposes section of the Savings and Loan Code to promote "innovative change."

Mr. Whitesell said the WAA is not negotiable. He said it is "an assignment of rights by the account holder to a transferee, and precludes negotiation to a succession of other parties."

WAA items, he said, are not checks under the Uniform Commercial Code. He said they also are not drafts because savings and loans have the right under certain conditions, to meet withdrawal requests on a pro-rata basis.

The Pennsylvania Bankers Association lost a suit challenging the legality of the "payment orders" offered by mutual savings bank last week when the State Supreme Court upheld a commonwealth court ruling affirming the Banking Department's order to allow payment orders.

Thomas Shriver, executive vice president of the Pennsylvania ABA, said the association was studying Mr. Whitesell's new order allowing the WAA accounts.

THE STAR LEDGER  
Friday, October 13, 1978

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October 17, 1978

## Bank firms post hikes in third quarter profits

By DAVID SANDLER

Benefitting from rising interest rates and an improved state economy, the New Jersey banking system is enjoying higher than anticipated third quarter profit increases.

Year-to-year income gains of 35 per cent or better were reported yesterday by four large banking organizations in the state: United Jersey Banks, Horizon Bancorp., Midlantic Banks Inc. and Heritage Bancorp.

The systemwide earnings advance is expected to moderate during the fourth quarter, primarily due to the strong showing made by the banks in last year's final reporting period, but 1978 is still likely to end as one of banking's strongest recovery years in recent memory.

"Based on interest rates staying the same, we're forecasting full year earnings gains of 15-20 per cent for our group of 22 listed New Jersey banking organizations," said Fenwick Garvey, executive vice president of John J. Ryan & Co. in West Orange, an investment firm specializing in banking issues.

Garvey added the state's smaller banks may fare even better than the giants, explaining their average cost of funds is less likely to fluctuate in an environment of rising interest rates.

The third quarter results continue the trend of the first and second quarters, when John J. Ryan's listed bank group posted year-to-year income gains of 17.3 per cent and 26.7 per cent, respectively. The pace of the profit increases, expected to lose steam in the second half, was swept through the third quarter by an interest rate spiral that has seen the prime rate move to 10 per cent.

To some degree, the gains reflect the fact that through the first nine months last year many banks were still weathering the problem loans that piled up during the 1974-75 recession. The negative effects of troubled real estate investments on earnings were especially long-lived.

But by 1978 these difficulties had been substantially resolved. With the

banks enjoying improved pricing and healthy demand in business, consumer, and mortgage lending the year-to-year earnings comparisons have been unusually flattering.

United Jersey Banks, for example, reported the daily average balance of loans outstanding at bank subsidiaries showed installment loans up 19.3 per cent, mortgages up 17.9 per cent, and commercial loans up 15.8 per cent.

Midlantic concurred, noting its growth during the first three quarters of the year "results principally from continued high levels of loan demand, increased deposits, and an upward trend in interest rates."

The fourth quarter of 1977 saw the state's banking system shift into high gear for the first time since the 74-75 downturn, and, consequently, this year's final quarter is apt to be less impressive than the preceding periods. John J. Ryan & Co. is predicting advances of 12-15 per cent for its listed bank group.

Horizon Bancorp reported third quarter income before securities transactions of \$2 million, or 74 cents a share, compared with \$1.5 million, or 55 cents a share in 1977, an increase of 35 per cent. Horizon also said it increased its regular quarterly dividend from 25 cents to 30 cents a share.

Midlantic Banks Inc. said its third quarter income before securities transactions was \$4.2 million, or \$1.42 per share, compared with \$2.8 million, or 89 cents a share last year, a gain of 52 per cent. Midlantic recently increased its dividend from 50 cents to 54 cents a share.

At United Jersey Banks, third quarter earnings before securities transactions rose to \$3.1 million, or 59 cents a share, from \$2.1 million, or 40 cents a share last year, a gain of 47.5 per cent.

Heritage Bancorporation enjoyed a 63 per cent jump in third quarter income. The banking organization earned \$3 million, or 76 cents a share, compared with \$1.8 million, or 47 cents a share last year.

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Wednesday, Oct. 11, 1978

# BUSINESS

A 19

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## S&Ls Get OK to Offer Check-Like Accounts

By A. JOSEPH NEWMAN JR.  
Of The Bulletin Staff

Hot Springs, Va. — For the first time, customers of savings and loan associations in Pennsylvania soon will be able to pay bills by writing a check-like piece of paper against their accounts.

The pieces of paper wouldn't be exactly like the checks of commercial banks, "payment orders" of mutual savings banks or "share drafts" of

credit unions that people now use to make payments to the butcher, the baker and the candlestick maker.

They would be "withdrawal by assignment" (WAAs) "items." Technically, an S&L depositor would pay a bill by filling out a withdrawal slip from his or her S&L account and "assigning" it to a third party by filling out the name on the "pay to" line.

Pennsylvania Banking Secretary William E. Whitesell gave state-chartered S&Ls the go-ahead to open

WAAs subject to formal promulgation of specific regulations.

They are expected to be published in about two weeks in the official "Pennsylvania Bulletin."

After a 30-day comment period and a second publication, the regulations and WAAs could go into effect.

At its annual meeting here this week, the Pennsylvania Savings League, the S&L trade organization, officially asked the banking secretary to get the WAA ball rolling so that —

like their competitors — S&Ls could get into the business of letting customers pay bills out of their accounts.

Like regular checking accounts and payment orders, the WAAs would not earn interest. S&Ls would not be able to link them to regular, interest-bearing savings accounts via the new automatic transfer mechanism that becomes legal Nov. 1.

Butchers, bakers and candlestick makers receiving S&L customers' WAA items would deposit them in their own banks. They would, subse-

quently, be returned through the banking system to the S&L and deducted from your deposit.

Will there be a charge for WAAs? Or a required minimum balance?

That's up to individual savings and loans. Some may even choose not to offer them at all.

S&Ls with federal charters, unlike state-chartered associations, couldn't offer these check-like accounts without specific authorization by Congress.

Business Section

## Profits moving up for banks in state

10-12-78

New Jersey banks began reporting their third quarter earnings yesterday, with results showing an upward trend as compared with last year's third quarter results.

First National Bank of New Jersey, Totowa, reported third quarter income before securities transactions of \$2.02 million or 90 cents per share, compared with \$1.99 million or 88 cents per share last year.

Net income after the transactions was \$2.04 million or 90 cents per share, compared with \$1.97 million or 87 cents per share a year ago. The per share figures were adjusted to reflect a two-for-one stock split on Oct. 21, 1977, and a 10 per cent stock dividend on July 21.

First Jersey National Corp., Jersey City, reported earnings before securities gains for the 1978 third quarter of \$1.11 million or 74 cents per share, compared with \$694,000 or 47 cents per share for the same quarter in 1977. Net income

after securities gains was \$1.12 million or 75 cents per share, up from \$709,000 or 48 cents per share a year ago. The quarterly results, which amounted to a 60 per cent increase in net earnings, were a record high for the bank holding company.

Another Jersey City bank, the Commercial Trust Co. of New Jersey, said its net operating income before securities transactions was \$822,372 or 62 cents per share for the 1978 third quarter, compared with \$737,999 or 56 cents per share a year earlier. Net income after the transactions was \$942,060 or 71 cents per share, compared with \$737,999 or 56 cents per share last year.

William L. Staehle, president of the National Community Bank of New Jersey, Rutherford, said the bank's net operating income before securities transactions was \$301,391 or \$1.19 per share for the third quarter, compared with \$226,938 or \$1.13 per share last year.

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10/9/78

## State-charter banks show deposit surge

By ALEXANDER MILCH

Deposits in New Jersey's 119 state-chartered banks were \$16.774 billion at mid-year, up \$2.136 billion or 14.5 per cent from a year earlier, according to data released by State Banking Commissioner Angelo R. Bianchi.

Similar information for 100 nationally-chartered banks in the state is not available, due to a decision by the office of the regional national bank administrator in New York to release figures on a year-end basis only. Their deposits as of Dec. 31, 1977 were \$17.318 billion, up 9.7 per cent.

However, the slack will be taken up by the Federal Reserve Board, which is expected to do such reporting hereafter. Fed figures are due in the next few weeks, it was learned.

The state banks, made up of 89 commercial and 20 savings institutions, had assets of \$19.013 billion as of June 30, up \$2.477 billion or 15 per cent from a year earlier.

Deposits of the commercial banks were \$9.342 billion, representing a rise of 18.2 per cent, while those at the savings banks were \$7.431 billion, up 10.1 per cent.

Time and savings deposits at the commercial banks were \$6.044 billion, up 18 per cent. Similar deposits at the savings banks were \$7.14 billion, up 9.6 per cent.

Checking accounts (demand deposits) of individuals, partnerships and corporations at the commercial banks came to \$2.821 billion, compared with \$2.361 billion a year earlier. Demand deposits at the savings banks were \$291.751 million, compared with a previous \$231.503 million.

A principal reason for the greater growth ratio shown by the commercial banks was that the figures of a former national bank were added for the first time this year. The bank is the \$747.1-million-deposit First Peoples of Haddon Township, largest in the southern part of the state. It gave up its national charter in favor of one issued by the state.

Obligations of the U.S. government and agencies accounted for 15.3 per cent of the assets of the commercial banks, compared with 17.5 per cent as of June 30, 1977. Cash represented 9.5 per cent compared with 8.9 per cent before. In the savings banks, U.S. obligations accounted for 19.1 per cent compared with 20.8 per cent before, and cash 2 per cent, compared with 1.7 per cent.

Net loans, including mortgages and excluding federal funds, came to 52.3 per cent of the assets of commercial banks, compared with 50.3 per cent. In savings banks, mortgage loans were 57.8 per cent of assets, as against 56 per cent.

The mortgage loans at the savings banks came to \$4.684 billion, compared with \$4.067 billion a year earlier.

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## Top banks offer system to clear checks, credit

By ALEXANDER MILCH

New Jersey's two largest commercial banking chains now have check and credit card authorization capability available for their retail merchant customers.

Edward A. Jesser Jr., chairman of United Jersey Banks Inc. of Princeton, announced yesterday that his organization has agreed to join the automated authorization system jointly developed by Osterberg Associates, Inc. (OAI) and the First National State Bancorporation, both of Newark.

The UJB decision to offer the same system now promoted by First National State gives the network involved considerable momentum toward industrywide acceptance, Jesser said. First National State is the state's largest commercial banking organization, while UJB is second largest. They own and operate six and 11 member banks respectively.

First National State which calls its version "First Service," has been operating it through a lease arrangement with OAI since the start of this year.

First National State now has nearly 700 terminals installed in stores in New Jersey and Pennsylvania, enabling merchants in those retail outlets to accept checks and credit cards which are presented to them for payment of goods. The total of terminals is expected to reach 1,200 by the end of this year, according to Robert E. Prothero, executive

vice president at First National State.

Checks presented to the merchant can be guaranteed, on the basis of a data bank developed by Telecredit Inc. in Los Angeles. If the check is bad, Telecredit will "eat" it.

Checks can also be verified, data banks indicating that the passer has not been involved in bad checks. Should losses occur, however, the merchant must absorb them.

Credit cards can be verified, as to their validity by sliding the magnetic encoded strip through a slot in the terminal; computers at the various card companies involved indicate whether the card is usable.

\* \* \*

Terminals used are owned by the bank involved, and leased to the merchant. UJB will now be seeking to sign up its own retail establishments for the new service.

Santo E. Galdi, UJB vice president for electronic funds systems, said that the OAI system speeds up store transactions because clerks need no longer look up "hot" lists of worthless credit cards. Checks can be accepted for business which otherwise would be lost to the merchants, he added.

Jesser noted that UJB signed up for the OAI system "after careful study of the technology, operating simplicity, and reliability of the various consumer credit-verification developments that appeared to us to be most promising."



# Jersey Business

By JOHN SOLOWAY

## Banks gird for ATF competition

New Jersey's banking industry marketers are giving full play to their conceptual talents these days to meet the Nov. 1 kickoff for the ATF competition.

ATF stands for automatic transfer of funds which, come next month, will enable both commercial and mutual savings banks to pay interest on their customers' checking accounts — in effect.

Meanwhile, out in left field in the Garden State is the savings and loan industry, which for many, many months has been striving to legislate for its savers checking privileges of any kind.

It is a situation which the chief honcho of the S&L business in Jersey — Edmond Lawlor Jr., president of the New Jersey Savings League — described yesterday as being of "grave concern" to some 200 savings and loan associations in the state and their estimated four million customers.

The New Jersey Assembly has passed A63 which would give the S&Ls checking privileges but the bill still languishes in a Senate committee in Trenton.

Ed Lawlor points up the seriousness of the situation by noting that the legislative remiss will serve as a serious setback to housing production because less savings put into S&Ls will mean less mortgage money.

How come? Well, as Lawlor explains it, commercial banks are in housing mortgages only to the extent of 22 per cent of available funds while the savings and loans dedicate some 85 per cent for that purpose.

**HOW KEEN** will be the competition among the banking fraternity in the ATF competition is indicated by the fact that most commercial and mutual banks are still keeping their programs under wraps.

There was, for example, "a notice of significance to our customers" mailed the other day by The Ramapo Bank of Wayne.

Noting ATF's Nov. 1 inaugural date, Ramapo's chairman/president, Robert R. Peacock commented:

"We expect that many banks will be offering and promoting an array of new services to retail customers. These services will be designed to help you avoid accidentally overdrawing your checking account and to help you keep more (or all) of your funds earning interest in a savings account."

Emphasized Peacock:

"I want to assure you that (Ramapo Bank) will be in the forefront in offering new and convenient services . . . I will explain Ramapo's services to you in the next several weeks — in ample time for you to take advantage of the Nov. 1 starting date."

\* \* \*

**SOME MAJOR** banks across the country — including the Garden State's biggest commercial bank holding company, First National State — have already unveiled their programs implementing the rulings of the Federal Reserve Board and the Federal Deposit Insurance Corp.

Under the edict, funds may be deposited in savings accounts in a national or state commercial bank or a mutual savings bank, gathering interest, until they are needed to cover a check written against an individual's checking account.

First National State's member banks call their program Investment Checking Plan, tying checking to new five per cent savings accounts. However, to earn interest in any month, customers must keep a minimum balance of \$500. There is also a \$1 monthly maintenance fee and a 20-cent charge for each check written. At a \$2,500 balance, checking at FNS banks becomes free.

Citibank in New York, on the other hand, has announced it will charge a \$5 monthly fee on balances under \$1,000. The fee decreases as the balance rises until it reaches \$5,000 — at which point checking becomes free.

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10-3-78

# Two banks outline 'no-bounce' plans

THE STAR-LEDGER, Tuesday, October 3, 1978

By ALEXANDER MILCH

Midlantic National Bank of Newark and American National Bank & Trust of Morristown yesterday joined the First National State Bank of New Jersey, Newark, first in the state to do so, in announcing their plans for "no-bounce" checking.

This is the new service, starting nationally Nov. 1, under which customers can authorize their banks to automatically transfer funds out of their savings accounts into their checking accounts to honor incoming checks. Savings accounts earn interest, while checking accounts do not.

"Our research demonstrates that customers will use our new automatic transfer service for the opportunity of earning interest on idle checking account funds, or for the overdraft protection offered," it was said by Theodore C. Morehouse, vice president and senior marketing officer at Midlantic. "We therefore have structured our service so that our depositors may take advantage of either benefit, or both."

Midlantic is therefore offering its customers the choice of two plans, both modified from checking accounts presently available to them, he said. It will be necessary, however, for customers to come into their bank office to sign up for the service; it will not be added to present accounts automatically.

Regular checking account customers will be charged 25 cents any day that a transfer is made out of savings, regardless of the number of checks that may clear at the bank that day.

After that, regular charges apply, so that an account maintained with a minimum balance of \$500 has no maintenance charges to pay. The cost is \$4 a month if the balance is between zero and \$299, and \$3 a month if it is from \$300 to \$499.

The bank's special checking account customers will also pay the 25 cents daily charge whenever any trans-

fer activity occurs. In addition, there is the charge of 15 cents per check and 75 cents per month now imposed for this service.

Transfers to checking accounts will be made from statement savings accounts only, and not from passbook savings accounts, according to Morehouse. This is because of the highly computerized nature of the automatic transfers, he said.

Statement savings accounts, which involve printed sheets showing deposits and withdrawals and interest credited, earn 5 per cent yearly at Midlantic from day of deposit to day of withdrawal, he said.

Two additional features of the Midlantic service were pointed out by Morehouse:

- If a regular customer who maintains his checking balance at \$500 or more requests it, the bank will make exact-amount transfers from savings any day that the balance dips below \$500; this means that he is charged only 25 cents, and does not become liable to the bank for the \$3 or \$4 monthly charge for accounts with balances under \$500.

- No minimum balance is required for either the savings or checking account — unlike some banks around the country which announced mandatory minimum balances.

"In effect, our system will do a regular customer's bookkeeping for him, and as long as adequate funds are available in statement savings, there will be no normal checking account service charges," Morehouse said.

Midlantic, third largest commercial bank in New Jersey, has 45 offices in Essex, Morris, Passaic, Somerset and Warren counties.

American National calls its service "The Money Maker," and it will be available, to individuals only, for \$5 a

month, said Phillip F. Hudson, executive vice president for retail banking.

There will be no minimum deposit required in the checking account, and the statement savings account involved will earn 5 per cent. This interest will be calculated daily and paid monthly, with all transactions recorded on a monthly statement, Hudson said.

Donald E. Heyer, vice president for marketing at American National, said that his bank's emphasis is on "keeping the service simple."

"It will combine all benefits of a checking account with the interest-earning features of a savings account," he said.

American National will offer its new service in all of its 36 offices in northern New Jersey, he added.

First National State, which last week announced its version, called "Investment Checking," will require its customers to maintain a combined minimum monthly balance of \$500 in their savings and checking accounts in order to receive interest in a given month.

First National State, largest commercial bank in the state, will charge its customers a monthly fee of \$1, plus 20 cents for each check used. The service, however, will be free to those maintaining a combined balance of \$2,500.

The savings account portion of this plan will earn 5 per cent on deposits, compounded from day of deposit to day of withdrawal.

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# Major banks prepare no-bounce checking

THE STAR-LEDGER, Tuesday, August 29, 1978

By ALEXANDER MILCH

New Jersey's major banks will be ready to offer "no-bounce" checking on Nov. 1, the effective date set by the Federal Reserve Board for this new form of automatic funds transfer.

What is more, it was learned yesterday, the bankers involved are considerably happier about the prospect because a group of their leaders was privately assured in Washington late last week that they will have interest rate parity on this type of linked account.

A high government official told the New Jersey delegation that sentiment in Washington is strongly for having commercial banks and thrift institutions pay the same maximum interest rate for this new form of banking.

Such a proposal, which would require Congressional approval, would also include extension of the Federal Reserve's Regulation Q for two or three years. Since Regulation Q permits thrift institutions to pay higher interest rates than commercial banks for savings accounts, it would have to be amended to make it inapplicable to linked accounts.

The Federal Deposit Insurance Corp. (FDIC) is in favor of the idea of interest rate parity for all institutions offering linked accounts, and will so inform Congress. This has been announced by U.S. Comptroller of the Currency John G. Heimann, who is acting chairman for the FDIC.

The linked account will contain both savings and checking accounts, with pre-authorized transfers made from the interest-earning savings portion to the non-interest-earning checking portion to honor incoming checks.

Commercial bankers in New Jersey and elsewhere have expressed concern that their linked accounts would be at a competitive disadvantage with those of thrift institutions since the latter under Regulation Q can presently pay 5.25 per cent on savings accounts whereas commercial banks are limited to 5 per cent.

Parity for linked accounts would mean that banks and thrift institutions would all pay 5 per cent on the savings portion. This is already the case in New England, where 5 per cent NOW accounts are legal. NOW accounts are a hybrid form of checking-savings account

which earns interest and against which check-like negotiable orders of withdrawal (NOWs) can be drawn.

A survey of major institutions in New Jersey yesterday indicated that they will be ready with linked accounts once they become permissible under the Federal Reserve directive. Rush jobs are being completed on computer systems to make this possible.

Robert C. Forrey, president of the New Jersey Bankers Association said yesterday that if parity is assured for the state's commercial banks as against its savings banks (savings and loan associations are not allowed to have checking accounts at present) it would not be necessary for his group to continue to seek postponement of the Nov. 1 effective date. The state association had been one of several Northeastern banking groups asking the Federal Reserve for a delay.

The Midlantic National Bank of Newark last month was the first in the state to announce it would be ready on Nov. 1 with a linked account system for its retail customers.

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## Jersey banks mapping a 'bounceless' service

By DAVID ALLEN

New Jersey's major banks are finalizing plans to implement recently granted authority to automatically transfer funds from savings to checking accounts, sometimes referred to as "no-bounce" checking.

First National State Bancorporation of Newark, the state's largest bank holding company, yesterday announced details of its plans, and, within the next couple of weeks, other banks are expected to follow suit.

First National State will tie its automatic funds transfer service with new 5 per cent savings accounts, with interest compounded continuously from day of deposit to day of withdrawal. Funds kept in the savings portion of the account will earn an effective annual yield of 5.2 per cent.

First National State, which will call its service "Investment Checking Plan," will require that customers maintain a combined minimum monthly balance of \$500 in order to earn interest. Customers will be charged a monthly fee of \$1, plus 20 cents a check. The new account will be offered free to customers maintaining a balance of \$2,500.

Under regulations spelled out earlier this year by the Federal Reserve Board, commercial and savings banks will be permitted to offer the linked accounts on Nov. 1. In effect, the new regulations will permit banks to pay interest on checking accounts.

A number of New Jersey banks have already announced plans to offer their customers automatic transfers, but First National State is believed to be the first to disclose details of its linked accounts.

Other banks reported yesterday that they were still in the process of formulating plans. Midlantic Banks Inc. of West Orange, parent of Midlantic National Bank of Newark, is expected to announce details of its linked account later this week or early next week.

Fidelity Union Trust Co. of Newark said it was in a similar position. "We plan to be aggressively involved in it. We will be making our announcement shortly," said a Fidelity spokesman.

The plans are sure to vary, as banks prime their marketing strategies to lure retail customers. As things stand now, savings banks will have a slight advantage since they are allowed to pay 0.25 per cent more interest on savings accounts than commercial banks.

Richard J. Hatzenbuehler, a First National State Bank of New Jersey vice president who developed the plan for the holding company, said customers with a linked account will be able to earn interest on their funds until the "very last" minute.

"When a check written by the customer reaches the bank, we will automatically transfer the exact amount needed to cover the check from savings to checking," Hatzenbuehler said.

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## Siemens employes try first 'Sure Pay' system

THE STAR LEDGER  
August 4, 1978

By ALEXANDER MILCH

Siemens Corp. of Iselin has become the first client for "SurePay," a direct payroll deposit system just instituted by Midlantic National Bank of Newark.

As a result, salary checks for 145 Siemens employes in five states are being credited directly to their savings or checking accounts at banks of their choice. The states are New Jersey, New York, Pennsylvania, Texas and California.

The Midlantic program will be expanded by October to include the pay of 1,000 employes of the medical and industrial electronics firm, it was said.

Midlantic is the second New Jersey bank to announce direct payroll deposit by electronic funds transfer (EFT) technology.

\* \* \*

United Jersey Bank of Hackensack as of last September began sending payroll information to California via EFT on behalf of a customer, Volvo of America Corp., which has its headquarters in Rockleigh, Bergen County.

Currently 147 Volvo employes in California and New Jersey get their pay that way, according to Santo E. Galdi, United Jersey vice president. Soon to be added are Volvo workers in Virginia and Illinois.

United Jersey's participation was under a pilot program of the National Association of Automated Clearing

Houses. The program was officially approved as of February and is now being extended monthly to take in more and more local automated clearing houses (ACHs). As of Sept. 8, the network will total 30 ACHs.

Midlantic and United Jersey send electronic tapes containing payroll information to the New York ACH, computers of which are connected to receiving computers at cooperating banks. A total of 58 banks and savings and loan associations in New Jersey are now receiving members of the system, this in addition to hundreds of receiving institutions around the country. All member ACHs are linked with each other, and with member institutions.

Galdi said that United Jersey has added two more direct payroll customers, involving sending of payroll information to the New York ACH. They are Medical Economics of Oradell, a division of Litton Publications, and a New York computer systems company.

Payroll information exchanged by banks in New Jersey must go to the New York ACH, or to the one in Philadelphia if the southern part of this state is involved.

Charles A. Asselin, Midlantic vice president and head of its corporate services department, said that many companies are showing interest in corporate EFT services such as SurePay. Benefits include bypassing mail transit time and eliminating possibility of loss or theft, he said.

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# Banks, S&Ls clash over tax burdens

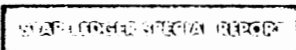
(9)

By ALEXANDER MILCH

Are New Jersey's commercial banks taxed more heavily than its savings and loan associations, or vice versa? Or is it a classic case of comparing apples and oranges?

The debate is due to start anew in September when the Senate in Trenton considers A-63, an Assembly-passed bill that would grant checking account authority to S&Ls.

Commercial banks through their



Third in a series

trade organization, the New Jersey Bankers Association (NJBA), remain adamantly opposed, insisting that if S&Ls want to be like banks, they should accept equal taxation and give up their other competitive advantages.

But replies the New Jersey Savings League (NJSL) which represents the state's 211 associations, tax breaks and other advantages are deliberately allowed them so they can pursue their specialty — the provision of billions of dollars in mortgage loan funds to the housing market.

## TAXATION OF FINANCIAL INSTITUTIONS

	Net Income After Taxes*	State Taxes*	Federal Taxes*	Combined Federal & State Taxes*	Combined Taxes as percentage or income
		1977			
Comm. Banks	\$205.4	\$27.0	\$17.1	\$44.1	21.5
S&Ls	111.0	1.8	33.3	35.1	31.6
		1976			
Comm. Banks	\$188.8	\$54.6	\$1.5	\$56.1	29.7
S&Ls	85.9	1.6	25.5	27.1	31.5
		1975			
Comm. Banks	\$183.1	\$24.5	\$6.1	\$30.6	16.7
S&Ls	63.1	2.0	17.8	19.8	31.2

\*Millions of dollars

Sources: State Banking Department, State Division of Taxation, U.S. Comptroller of the Currency, Federal Home Loan Bank of New York.

Note: State tax figures are for fiscal years ended June 30. All other figures for calendar year. S&L taxes estimated from breakdown of thrift institution figures.

A barrage of statistical data and argumentative expositions descended upon Assembly members before they recently voted 43-9 — with 28 abstentions for various reasons — to legalize S&L checking accounts. A similar informational blitz now awaits the Senate.

Trouble is that the data from the

two sides — presented by Robert C. Forey, NJBA president, and Edmond V. Lawlor Jr., his peer at the NJSL — tends to get confusing, particularly in connection with the burden of taxation.

Thus, the NJBA has charged that the S&Ls, whose combined net income last year was 54 per cent that of the

commercial banks, and whose assets were 60 per cent those of banks, were nevertheless required to pay state taxes, which were only some 7 per cent of those paid by banks (\$1.8 million versus \$27.0 million for fiscal 1977).

S&Ls for their part stress that their federal tax burden is much heavier than that of the commercial banks, due to "liberal tax breaks" granted by the federal government to the banks.

"Six out of the 10 largest banks in New Jersey in one recent year paid no federal taxes at all, while the 10 largest S&Ls that year paid \$7.225 million in such taxes," says Lawlor.

Even counting in lighter state taxes, the combined tax burden of S&Ls is proportionately heavier the NJSL contends. Using figures based in part of data from other sources than employed by the NJBA, the S&L group claims it paid combined taxes last year equivalent to 32.89 per cent of income, whereas commercial banks paid 22.58 per cent. The 1976 ratios were given as 32.35 per cent and 25.29 per cent respectively.

As shown in the accompanying chart, which is based on data gathered from state and federal sources by the NJBA, commercial banks in New Jersey

(Please turn to Page 23)

A63

## Credit unions booming in state

By ALEXANDER MILCH

New Jersey's 649 credit unions (CUs) continue to increase their savings or share accounts at a faster pace than other financial institutions of the state.

Generally paying higher interest rates than do banks or savings and loan associations on passbook or regular accounts, the CUs had \$732,668,000 on deposit in their share accounts as of Dec. 31, 1977, up \$119,216,000 or 19.43 per cent over a year earlier.

By contrast, the state's 211 savings and loan associations last year increased their savings accounts by only 14.39 per cent, savings banks by 12.62 per cent and commercial banks by 7.50 per cent. These institutions have much more on deposit than credit unions, but their percentage growth in recent years has not been as great.

Figures just released by the National Credit Union Administration (NCUA) in Washington, which regulates federally-chartered CUs, and the state banking department, which does the same for state-chartered CUs, made it possible to determine CU growth figures.

The 618,678 members belonging to New Jersey CUs (compared to 570,547 a year earlier) were able to earn

approximately 6 per cent (on the average) on their share accounts, withdrawable at any time, compared with 5.25 per cent for savings banks and savings and loan associations, and 5 per cent for commercial banks.

Credit unions are self-help non-profit organizations chartered for the exclusive use of people with a common bond, such as working in the same office or factory, belonging to the same church or fraternal society — or even living in the same community.

Members put their savings into their CUs in share multiples of \$5, with the money employed for loans to fellow members for autos, home improvements, appliances and other needs. The lending charge is usually one per cent a month on the unpaid balance.

Loans outstanding at the end of 1977 totaled \$524,022,000, an increase of \$95,657,000 or 22.33 per cent over a year earlier.

By contrast, commercial banks of the state reported their outstanding loans and discounts up 11.64 per cent from 1976 to 1977, while mortgage loan portfolios of savings banks were up 15.27 per cent and those of S&Ls

up 14.93 per cent. Here again, lending volume was much higher than for CUs.

Assets of the credit unions reached \$848,420,875 at the end of 1977, up 19.10 per cent from 1976. Commercial bank assets incidentally were up only 9.84 per cent, those of savings banks 13.68 per cent, and S&Ls, 15.15 per cent.

The state last year had 591 federally-chartered CUs, and 58 with state charters. A year earlier, the comparable figures were 581 and 61. More liberal NCUA operational standards have led organizers as a rule to opt for federal charters.

Share accounts for the feds came to \$687,823,000 in 1977 compared with \$574,230,000 a year earlier, while the comparable state CU figures were \$44,845,000 and \$39,172,000. All accounts are insured up to \$40,000 each by NCUA.

Saving figures for the fed CUs include share drafts, which are like checking accounts but pay the same interest as regular share accounts. As of March 31 this year, 12 federal CUs in New Jersey had \$3,996,768 on deposit in share draft accounts. Another five federal CUs are preparing to enter this new field, having received NCUA approval. No state CUs at present offer share drafts.

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4/11/78

## Inflation Panel Favors Svgs., Check Plan

By PHIL BATTEY

WASHINGTON — Allowing consumers a form of interest-paying checking account could help fight inflation, the President's Council on Wage and Price Stability said.

The council endorsed a proposal by the Federal Reserve Board to permit automatic transfers between checking and savings accounts. Its letter was among 1,215 comments received by the Fed on the plan.

In its letter, the council said that permitting preauthorized fund transfers would result in the better use of resources. Lowering check-clearing costs and reducing the distinction between savings and checking accounts may rise the economy's productive output, the letter said, and thus would be anti-inflationary.

The council suggested dropping a controversial interest-penalty provision in the proposal, arguing that a charge for the transfer service could be determined by market forces.

The proposal, which currently is limited to consumer accounts, should also include business and government deposits, the council asserted.

It had also supported the Fed's original proposal on the subject in 1976.

The Federal Deposit Insurance Corp. issued a proposal at that time which was similar to the Fed's, but covered nonmember insured banks.

The FDIC has not yet issued a new proposal, but has requested comments on the Fed's plan.

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# Allied to pay execs by checkless transfer

By ALEXANDER MILCH

NEW YORK — The Allied Chemical Co. of Morris Township as of April 15 is slated to become the first major New Jersey employer to have its multimillion dollar payroll handled by direct-and-paperless deposits to the credit of participating employes.

This was revealed yesterday at a conference on electronic funds transfer (EFT) developments held by the New York City Chapter of the Bank Administration Institute at the New York Hilton Hotel.

Robert W. Moore of Princeton, senior vice president of the Chemical Bank of New York, said that his institution has been working with Allied Chemical as its customer on implementation of the new program.

Some 3,000 employes in Morris Township and New York City who are paid monthly are being afforded the opportunity to sign up for direct deposit of their pay, with nearly half of them to date having agreed. These are mainly officers, supervisors and other top personnel in the company.

Another 2,000 employes in the region who are paid semi-monthly will be next, possibly by late summer, and the balance of several thousand Allied employes in 38 other states will be included before the end of the year, Moore said.

Transfer of funds will be made through the New York Automated Clearing House (NYACH), which will electronically list for each participating financial institution what deposits are to be credited and to whom.

Santo E. Galdi, vice president of the United Jersey Banks Inc. of Princeton, which has been actively engaged in internal direct payroll crediting for nearly a decade, said that his group of 11 banks has obtained permission from Allied Chemical to set up quarters in the Morris Township headquarters to recruit depositors for the program.

United Jersey last year was the first bank in the metropolitan area to send payroll data through NYACH to California on behalf of an automobile client, Volvo. United Jersey now originates more than \$1 million a month in payroll transfers on behalf of employers, he said.

Since the local employes use some 150 different commercial banks, savings banks, savings and loan associations and credit unions as their depositories, it was necessary for Chemical and Allied during nearly two years of preparation for the program, to mount a campaign to get more institutions in the two states to join the NYACH, Moore said.

Columbia University was the first in the metropolitan area to sign up for direct payroll payments for some 2,000 employes, Moore said. Columbia officials recommended the program highly to Allied Chemical as a means of sharply reducing payroll costs, he said, adding that Allied Chemical people returned to Morris Township "all fired up."

In New Jersey, the number of participating institutions has doubled in the past year to 66, with 34 actively able to receive EFT data from NYACH. To join the clearing house, institutions must pay a \$50 to \$2,000 initiation fee, plus one-half cent per item received or sent electronically.

John F. Lee of Short Hills, executive vice president of NYACH, said that his operation now has 142 members, 72 of them able to handle "live work." The ACH now processes \$2.1 million a month in preauthorized debits such as bill payments and \$37 million a month in credits such as direct deposit of Social Security checks to recipients on behalf of the U.S. Treasury. These are transmitted via NYACH or by direct physical delivery of electronic tapes to the institution.

Alexander V.R. Halsey of Locust, senior vice president of the Morgan Guarantee Trust Co., reported that the NYACH now has eight banks originating direct payroll crediting for 23 corporations.

George C. White Jr. of Upper Montclair, vice president of the Chase Manhattan Bank, who presided, said that while EFT should eventually handle the bulk of money transferred paper work represented by checks should continue indefinitely as handling of checks becomes more efficient. Only when the cost of handling checks becomes too expensive will EFT prove to be more attractive, he said.

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## Fed Revives Automatic Transfers with Changes Attractive to Depositors

By PHIL BATTEY

WASHINGTON. — The Federal Reserve Board Thursday revived its controversial two-year-old plan to permit automatic transfers between savings and checking accounts.

The plan—originally proposed March 15, 1976—would permit a bank customer to specify a certain amount of savings to be transferred automatically when a checking account balance falls below a certain level.

It has been attacked by sav-

ings and loan interests and some banks who likely will urge Congress to pressure the Fed into abandoning it.

Although the proposed Fed regulation would not technically result in interest-paying check-

(Text on page 4)

ing accounts—which are forbidden by law—it would, in effect, allow Fed member bank customers to receive interest on deposits that are available on demand.

The Fed postponed final implementation of its original regulation last year after Congress decided to take up the issue of permitting all financial institutions to offer negotiable order of withdrawal accounts.

In issuing for comment a revised proposal Thursday, the Fed loosened requirements banks must meet in offering the service.

The earlier proposal would have required customers to forfeit 30 days' interest on the amount of funds transferred from a savings account to a checking account.

The new proposal limits this penalty to the interest accrued on the funds in the 30 days before the transfer.

Thus, the amount of interest taken as a penalty for the transfer would depend on the interest policy of the depositor's bank. If interest is accrued or paid on funds only after a certain time limit and the funds are transferred before payment, no penalty would be due. If the funds had been on deposit for less than 30 days, the interest penalty would be no more than the amount earned during the time the funds were on deposit.

The original proposal also required that funds be transferred in \$100 units. The new proposal requires no minimum amount for transfer.

The Fed said its proposal is aimed at lowering the individual depositor's cost of making payments by check. The interest penalty on transferred funds would be less than the service charge for checks returned because of insufficient funds, the Fed said.

The proposal would also lower the operating costs of the agency's clearance system because returned checks involve hand processing and multiple handling, the Fed said.

either seek to roll back the Federal Reserve's action or promptly enact legislation which would place all financial institutions on an equal footing in their power to offer these accounts.

In a letter last Jan. 23, Mr. McKinney urged the Fed to delay final action on the proposal because recent rises in loan interest rates and reductions in savings flows into savings and loans associations meant a reduction of funds available for mortgage lending in the future. Competition for interest-paying deposit funds between savings and loan associations and commercial banks would increase during the year even without the Fed implementing its plan, Mr. McKinney said.

The two major commercial banking trade associations are split over supporting the plan.

Jerry Lowrie, director of the American Bankers Association's government relations program, said the ABA continues to support the automatic funds transfer concept, but opposes the interest penalty provision. He said the price of the service is a packaging and marketing decision that should be left to the individual bank's discretion.

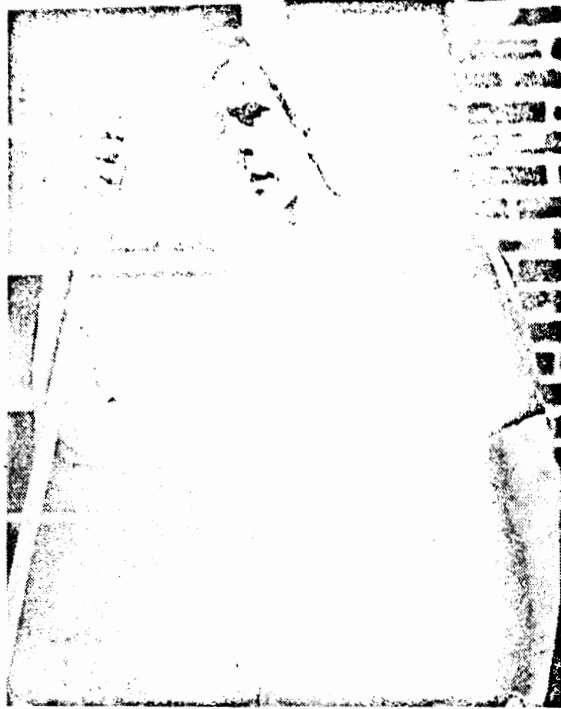
Richard Peterson, legislative counsel for the Independent Bankers Association of America, said his trade group would continue to oppose the proposal.

Sen. Thomas J. McIntyre, D., N. H., the chief congressional sponsor of NOW account legislation, said he also plans to call upon the Fed to delete the interest penalty provision.

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**"I bring home \$308 a week.**

**I used to  
put \$250 in  
checking  
and \$58 in  
savings.  
Now I put  
it all in  
savings  
and still  
write checks.**



**Thanks to Investment Checking."**

All over New Jersey people are putting their money to work with First National State's Investment Checking Plan.<sup>™</sup>

That's because Investment Checking is as close as we can come to legally paying interest on your checking account.

Here's how it works! You have a combination of a Checking Account, a Savings Account, and an Automatic Transfer System. You simply keep all of your money in your savings account right up to the time a check reaches the bank. Then we automatically transfer into your checking account the exact amount you need to cover the check. So your money earns interest right up to the last minute.

And the rate of interest you earn is the highest rate any bank is allowed to pay on transfer accounts—an Effective Annual Yield of 5.20% on 5% Annual Interest with interest compounded continuously on collected balances.\*

\*It is necessary to keep a minimum combined Investment Checking Plan balance of \$500 to earn interest in any given month. This balance may be in both checking and savings or all in savings. Investment Checking is for individuals only.

The costs of the Investment Checking Plan are not much more than a Regular First National State Checking Account. And if you keep a minimum balance of \$2,500 or more in your Investment Checking Plan we'll waive service charges.

So don't let your money sit idle for another day. Apply for Investment Checking now by visiting any First National State office.



**First  
National  
State<sup>®</sup>**

• First National State Bank of New Jersey 201-565-3200  
• First National State Bank of Central Jersey 609-396-4060  
• First National State Bank—County 201-567-5000; 201-391-4000  
• First National State Bank—Edison 201-985-0500 Middlesex County;  
201-449-5500 Monmouth County; 201-364-1100 Ocean County  
• First National State Bank of Northwest Jersey 201-584-6700; 201-347-6637  
• First National State Bank of West Jersey 609-386-0091 Burlington and  
Atlantic Counties; 201-766-1000 Somerset and Morris Counties

Members First National State Bancorporation  
550 Broad Street, Newark, New Jersey 07102.  
Members FDIC

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**Fight lazy money with Investment Checking.**

# The Earner<sup>SM</sup>

Now the money you'll use for  
checking earns 5% interest

From Fidelity, of course.

SM The Earner is a servicemark of Fidelity Union Bancorporation

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DAY TO THE ORDER OF		\$
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⑆0212⑆0009⑆ 215 421411 8⑆		

New Jersey never had checking like this. Now the money you'll use for checking earns 5% interest in your savings account.

Just put it all into a 5% Automatic Transfer Savings Account. When you write a check, your savings account will put the exact amount into your checking account. Automatically. So you'll never have a penny more in checking than you need.

Sign up now at one of our nearby offices. You'll write checks as easily as ever, while your money earns interest like never before.

- No automatic transfer fees.
- No per-check charges.
- No charge for checking when you keep at least \$500 in an Automatic Transfer Savings Account. There is a monthly charge of \$3.50 when you fall below the \$500. You must keep at least \$100 in The Earner to receive interest in any given month.
- Savings earn 5% interest from day-of-deposit to day-of-withdrawal.
- The bank reserves the right to require 30 days notice prior to savings withdrawal.
- 24-Hour Maxi-Teller Banking is available, too. Get cash, make deposits, transfer money between accounts, even check your balance in just seconds.
- Ask for details at any office.



For the Fidelity office nearest you  
call (201) 621-8600

