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Draining funds from housing

The latest deregulation move sets up sweeteners that turn S&Ls toward commercial banking and away from home loans.

The second blow of the one-two punch against the financial mainstay of the nation's housing industry has been delivered in the form of incentives designed to pull savings bank loans away from the home mortgage market. The Federal Home Loan Bank Board announced last week that it was granting federally chartered savings and loan banks (S&Ls) considerably augmented lending powers including permission for consumer loans, land speculation, nonresidential mortgages, second mortgages, commercial paper and corporate bond purchases, and the right to conduct interstate banking. The first slam against housing was Federal Reserve Board Chairman Paul Volcker's elimination of the S&L interest rate differential, effected by the Deregulatory Committee on May 28.

The Home Loan Board also proposed regulations that would lengthen mortgages from 30 to 40 years, take the ceilings off mortgages and home improvement loans and reduce down payments from 20 to 10 percent.

The United States League of Savings Associations, the largest of the S&L industry associations, issued a short press release commending the Home Loan Bank Board for stretching mortgage payments and reducing the down payment, but remained silent on the increased lending authority being proposed. The much smaller but influential National Savings and Loan League, however was "very enthusiastic" about the entire package, which it considered a natural outcome of House Banking Committee chairman Henry Reuss's Depository Institutions Deregulation and Monetary Control Act of 1980, which they also strongly backed.

The Board's action is said to have originated with National Savings and Loan League vice-president Richard S. Lawton, who last year convinced the Virginia legislature to pass similar lending powers for office and commercial properties and unimproved land.

S&Ls were previously limited to mortgage, home improvement and educational lending.

The most surprising of the Board's moves is the one allowing interstate lending. Although this does not violate the McFadden Act, which prohibits interstate commercial banking, as the S&Ls take on commercial paper, corporate bonds, trusts, or credit cards, S&Ls would become less and less distinguishable from commercial banks. On June 6 the Board promulgated rules facilitating conversion from state to federal chartering of the S&Ls.

The proposal to halve down payment requirements ironically adds another cost to the housing market: mortgage insurance. To bear the increased risk of mortgaging younger families with both adults employed, S&Ls often turn to mortgage insurance from such operations as Max Karl's Mortgage Guarantee Insurance Corporation (MGIC). Jay Janis, head of the Home Loan Bank Board, was formerly a top MGIC official. By reducing down payment requirements, mortgage insurance puts the mortgage transaction into the realm of speculative paper.

The need for mortgage insurance further increases when variable or renegotiable mortgage instruments are used, since if rates continue to rise, so could a family's mortgage debt. The National Savings and Loan League is now trying to end restraints on variable-rate mortgages. Meanwhile, the full impact of Volcker's Deregulatory Committee abolition of the S&L interest differential will be felt this week as the commercial banks get to bid for money market certificates at the same rates as S&Ls. While the U.S. League of Savings Associations expects this to transfer $17 billion from the S&Ls to money center commercial banks in the next six months, the S&Ls have other institutions on their minds. "Yes, I'm worried about the money market mutuals but I'm really much more concerned about the Merrill Lynches," commented the chairman of a large Western S&L. "I can see their office from my window. I know they are siphoning off my accounts, and their banking is unregulated."

The total shortfall in available funds for housing each year is estimated by University of California professor Ken Rosen at $42 billion each year—about 25 percent of the entire home mortgage money requirements annually. The Volcker policy of "no housing in the '80's" is being tightly implemented.

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