

By supervisory and tax policy, savings and loan associations are narrowly confined in the type of investments they may select. Their main investments must be channeled into home mortgages. This type of investment is long term in nature and limited in the rate of interest return. When the dividend rates a savings and loan association must economically pay in order to attract savings funds too closely approach the various usury rates fixed by State laws for interest on mortgage loans, the investment flow from savings and loan associations used to originate real estate mortgages decline. Homebuilding and transfer of homeownership suffer.

Such a situation is far less likely to occur if the Federal Government raises more of the funds it needs by means of an increase in taxes. To the extent it does so, the necessity of Federal Government borrowing in the public market decreases, thus removing one of the upward pressures on interest rates. The interest rate structure then may hopefully be expected to remain on a lower plateau in a range that can be met by savings and loan association in offering dividend rates on savings that will continue to attract the account holders' dollars.

One further restraint to tax income to the Federal Treasury should be mentioned at this time. The present definition of a domestic building and loan association in the Internal Revenue Code of 1954 lists in detail the portfolio limits of investments an association may hold and still qualify as an association for Federal income tax purposes.

The net effect of the definition is to prevent an association from making any type of lawful investment that would forfeit its status as a domestic building and loan association. Therefore, the definition does not result in any increase in taxes flowing to the Treasury that could otherwise occur if a savings and loan association were free to make the investment without forfeiting its status as an association.

Savings and loan associations are chartered under the laws of 50 different States as well as under Federal charters. As might be expected, the investments they are authorized to make vary with laws of their incorporating jurisdictions. The national league has suggested that all savings and loan associations, whether federally or State-chartered, that have their savings accounts insured by the Federal Savings and Loan Insurance Corporation be automatically defined as bona fide domestic building and loan associations for Federal tax purposes.

These institutions would then be in a position to make investments authorized by law that would produce more tax dollars for the Federal Treasury than is now the case. At an appropriate time, we hope this committee will give consideration to this suggestion.

In any event, the tax proposals made by the President will go far toward producing an appropriate balance between monetary policy and fiscal policy, thereby enabling the savings and loan industry to attract the savings funds required to continued to finance homebuilding and homeownership in the United States. The national league urges adoption of the President's tax proposals.

Thank you for giving us the opportunity to present these views.

Mr. ULLMAN. Thank you, Mr. Heisler.

Are there questions of Mr. Heisler?

I am a little concerned about your advocacy of a broadening of the definition. What is your situation today with respect to adequate money supply to handle homebuilding needs?