

FROM:
AMERICAN BANKERS ASSOCIATION
THE NEWS BUREAU
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Address by Mr. M. Monroe Kimbrel, Chairman of Committee on Federal Legislation, American Bankers Association, and Executive Vice President, First National Bank of Thomson, Georgia, at Seminar and Forum of the Miami Chapter, American Institute of Banking, McAllister Hotel, Miami, Florida, 8 P.M., Monday, March 30, 1959

All history shows that man, to a very large degree, is a creature of his environment. This same rule applies to associations or groups of men, and it applies with particular force to the activities of our Association as related to Federal legislation.

So I suggest that we consider our present legislative program in the light of the economic and political environment in which we live.

Thirty years ago many banks operated completely independent of the Federal Government. For others, there was only an indirect relationship in the form of periodic visits by Federal examiners.

Today, in a very real sense, Uncle Sam sits on every bank's board of directors.

Of all the changes that have taken place within and around the banking industry since the '20s, this one seems to me to be the most significant. It has given rise to great problems and great opportunities. It has drawn us, willing or not, into an area of activity where bankers previously chose not to tread.

Most of us acknowledge - or should acknowledge - that the Federal Government is in banking to stay. We also recognize that the economic and governmental philosophy which has attracted public support in recent years

is in many respects at variance with basic banking principles. Nevertheless, the question before us is not whether but how to manage our end of the banker-Government relationship.

The American Bankers Association, like all trade and service groups, reflects the attitudes and aspirations of its members. In recent years the A.B.A. efforts have paralleled the growing concern of banking in general with respect to legislative trends.

First, let me establish the place and role of the Association's Committee on Federal Legislation. The Committee does not make policy. It recommends policy to the Administrative Committee and the Executive Council, and within policy limits it plans and monitors the activities of the Washington Office having to do with the Congress.

Now, what are we trying to accomplish?

In terms of legislative goals, bankers today occupy a rather unique position. We seek no Federal subsidy. We do not ask for guaranteed profits or protection against losses. At a time when special privilege is widely claimed, banking covets no special privilege for itself.

We do seek a well-ordered economic society in which banking can function properly. Within this general objective, we also advocate legislation that is needed to keep banking services abreast of the times and to provide a fair competitive balance among financial institutions.

These are modest and, I believe, attainable goals. The present strength of the banking industry generally and the extent to which our services are confidently used by the public would indicate that we have made substantial progress. At the same time, I can assure you that our Committee and the Association itself are very much aware of the need for continued efforts to improve banker-Government relations.

In my opinion, the success of these efforts depends to a large degree upon our understanding of two fundamental facts. First, banker-Government relations cover a tremendously complex and sensitive area. Secondly, the interest and participation of the individual banker determine the effectiveness of the total effort.

Obviously, our approach must take into account the processes and philosophy of the Federal Government as it exists today.

It is important, for example, that we recognize the political ground-rules by which Government operates. In politics the shortest distance between two points is hardly ever a straight line. Politics is at best an inexact science in which emotion and personality and prejudice all play an influential part.

Effective legislative representation, therefore, is not simply a matter of making known your views in clear and ringing tones. A proposal may meet every objective standard of merit and need, and still wind up on the shelf. A great many considerations, some entirely unrelated to merit or need or manner of presentation, go into the calculations of the Congress.

It follows that we must look at our own position realistically.

Today, banking as a symbol ranks low in political appeal. The nature of the business and attitudes rooted in ancient traditions combine to make banking something less than an inspiration or a threat in the mind of the practical Government servant. There is also the fact that in the modern era of concern for mass media and mass opinion, bankers are numerically unimportant.

In the political arena, banking has long been recognized as a safe and productive target. Whether we like it or not - whether there is justification for it or not - the fact remains and must be reckoned with.

Today, for example, banking is equated in some political circles - and in the minds of many people - with "big business"; and legislation bearing a "big business" label usually runs into heavy traffic. You and I know that most banks are small businesses - that 10,000 of the 14,000 banks in the country would qualify as small businesses according to the standards set up by the Government itself. The truth, in this case, has a long way to go to catch up with a politically significant legend.

Even more important is the reaction of the individual banker. He might, with some reason, pick up his hurt feelings and go home. He might say of Washington: if that's the way they're going to play, count me out. Or he might conclude that politics is no concern of his in the first place.

My friends, the trouble is that too many bankers have tended to think of Federal legislation in precisely these terms. What they often overlook is that Government is their responsibility as much as anyone else's, and that Government is going to continue to legislate and regulate banking whether it has the benefit of their advice and interest or not.

We tend to think of banking as a single, unified force. Insofar as Federal government relations are concerned, this is not the case. The appearance we frequently present to the Congress is that of disunity.

Last year a Congressional Committee considering legislation of vital importance to banking invited testimony from the industry. During the hearings three groups representing various branches of the banking family recommended three separate courses of action. One supported the proposal, one opposed it, and the other suggested substantial amendments.

Obviously, this is not conducive to Congressional understanding of banking's needs or to constructive legislative results. It serves only to confuse our friends and inspire our critics.

This situation, we all know, can be explained on the basis of the diversity of types of institutions and services within the overall banking system. I seriously question, however, whether its continuance can be justified in terms of banking's future responsibilities and needs.

I think we have to recognize that it is almost impossible to draft a single piece of legislation having general application to banking that would affect all banks alike. On any given subject there may be differing reactions from the State bank and the national bank, the country bank and the central reserve city bank, the unit bank and the branch bank, the commercial bank and the mutual savings bank. If the Association were to limit its attention to those proposals on which all member banks were in complete agreement, the Federal Legislative Committee would have nothing to do.

The sensible course, it seems to me, is to acknowledge the differences, iron them out to the fullest extent possible within the banking family, and then form a solid front in support of the agreed-upon position. At one time or another some members of the family will have to subordinate their preferences. I am convinced that in the long run all would gain. Certainly, the Congress and the country itself would benefit from the clear and forceful presentation of banking's best composite judgment.

Currently, a number of proposals of vital concern to banking are pending before the Congress. I believe there is a good prospect for the enactment of some constructive banking legislation this year.

As many of you will recall, most of the banking proposals before the Congress in the previous two years were contained in a single bill, the Financial Institutions Bill. Senator Robertson in initiating this one-package approach in 1957 recognized that the very size and scope of the

bill would render it vulnerable to sniping and delaying tactics and make passage difficult. These were precisely the rocks on which the bill ran aground in the House Banking and Currency Committee.

This year the Banking Committee leaders in both the Senate and House are taking the "separate bill" approach. Senator Robertson's Committee already has completed public hearings on a bill introduced by the Senator which would place final responsibility over bank mergers in the Federal bank supervisory agencies. The Association vigorously supported the bill in testimony last week, and took the occasion to express equally vigorous objection to a contrary proposal which would subject bank mergers to the Clayton Anti-trust Act and Justice Department approval.

Both of these proposals have been before the Congress for a number of years. This may well be the year of decision. In our opinion, there is no question but what the chief responsibility over merger proposals properly belongs with these supervisory agencies which best understand banking's problems and needs and which are qualified to evaluate "banking" factors as well as competitive factors.

Another important bill, now receiving consideration, would change the powers of the Board of Governors of the Federal Reserve System over member bank reserve requirements. Most important, it would permit member banks to count vault cash as part of their legally required reserves. This legislation embodies recommendations of the Board of Governors which evolved from studies in which the A.B.A. participated. We believe it is needed and that it will greatly enhance the services of banks throughout the country, particularly of smaller banks. We testified to this effect before the Senate Banking and Currency Committee last week and will testify before a House Banking subcommittee next week.

The Chairman of the House Banking subcommittee, Representative Paul Brown of Georgia, is expected to schedule hearings shortly on several other bills proposing significant amendments to the National Bank Act. One would modify the present requirement that the cumulative voting procedure be followed in the election of directors of national banks. Another would liberalize the restrictions and limits as applied to construction and industrial loans by national banks. Restrictions on frozen food loans, dairy cattle loans, and certain consumer instalment loans also would be adjusted.

These are positive proposals which would enable banking to do a better job. We are also concerned about others which would have the opposite effect.

One item in this second category is legislation that would raise from \$10,000 to \$20,000 the maximum amount of a shareholder's account in a savings and loan association which may be insured by the Federal Savings and Loan Insurance Corporation. The same proposal also would permit F.S.L.I.C. coverage of fiduciary accounts on the basis of \$20,000 for each member or beneficiary of the plan and would increase the insurance coverage of joint accounts.

These provisions were included in the omnibus housing bill introduced in the House early in the Session. When we testified before the housing subcommittee we expressed strong opposition to the increases in savings and loan insurance coverage on the basis that they appeared to be inspired more by a desire for competitive advantage than by any sound operational need. The provisions subsequently were deleted by the subcommittee and are not in the housing bill which is now waiting action by the House.

However, it is quite possible that a bill providing for the increases both for F.S.L.I.C. coverage of share accounts in savings and loan associations and for F.D.I.C. coverage of deposits in banks will be introduced later in the session.

We see no need for an increase with respect to either type of Federal insurance. The effect, we think, would be to mislead shareholders and depositors alike and to further confuse public understanding of the role and responsibilities of the several financial institutions under our present economic system.

The most complex - and possibly the most frustrating - situation we face legislatively today is that involving Federal taxation of financial institutions.

The inequities are obvious. Savings and loan associations, mutual savings banks and commercial banks all are subject to the same corporate income tax law. Yet, as a result of different treatment of income set aside as reserves for bad debts, commercial banks pay approximately 12 times the amount of taxes, on a percentage basis, as are paid by the mutual institutions. The dollar differential is even more staggering: for every \$1,000 paid in taxes by commercial banks, the mutual savings banks pay approximately one dollar and savings and loan associations pay less than one dollar.

We advocate a uniform treatment of bad debt reserves that will enable the three types of institutions to meet their tax responsibilities on a more nearly equal footing. In view of the need for Federal revenue, we believe this can and should be done without causing a loss of revenue to the Treasury.

It is no easy job. The Ways and Means Committee of the House, which originates all tax legislation in the Congress, held hearings last year on several proposals in this area and took no action. The Committee this year has completed work on a bill which would tax mutual life insurance companies. To date, it has not scheduled hearings on current proposals affecting banks and savings and loan associations. Furthermore, the Treasury Department, which exercises considerable weight in this field, has not given its blessing to any of the several plans presented within the framework of our position.

Representative Curtis of Missouri has stated that the purpose of a bill he has introduced is to modify the tax advantages of savings and loan associations and mutual savings banks. However, the omission from the present Curtis Bill of any limitations on the amount of tax-deductible income which these institutions may pay out in the form of dividends and interest raises serious doubt as to whether the bill would achieve its purpose.

Our Association is committed, as a matter of policy, to a uniform treatment of bad debt reserves. We have worked closely with Members of Congress, with key Government officials and - since last Fall - with representatives of mutual savings banks in an effort to develop a proposal in line with our policy which will have the best possible chance of becoming law. To date, we have not found a solution to this most difficult of problems. The effort continues and, I hope, will produce concrete gains within the next few months.

The future course of a piece of legislation is about as predictable as a leaf in the wind. I have purposely refrained from predictions, or even speculations, while summarizing some of the more constant factors of

atmosphere and attitude which help to illuminate the present arena of banker-Government relations. We need light - not heat. We need to know where we are in order to know where we are going. It is through the understanding and active cooperation of groups such as yours that we can make important progress.

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