FROM:
AMERICAN BANKERS ASSOCIATION
THE NEWS BUREAU
George J. Kelly, Assistant Director
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Address by M. Monroe Kimbrel, Chairman of Committee on Federal Legislation, American Bankers Association, and Executive Vice President, First National Bank, Thomson, Georgia, before the Bergen County Bankers Association at the Swiss Chalet, Rochelle Park, New Jersey, September 17, 1959

Winston Churchill has defined a statesman as one who can predict what will happen and, afterwards, explain why it didn't happen.

A good many "expert" observers of the Congressional scene are now busily qualifying as statesmen under that definition.

When the First Session of the 86th Congress convened last January, there was general agreement as to the basic course it would follow.

One, it would expend the public funds liberally and bring on deficit financing.

Two, it would substantially expand Federal social welfare programs.

And three, it would disregard recommendations of the more conservative groups in the country, such as bankers.

To the credit of the Congress, it did none of these things. I believe that the record of the Session just completed will stand up as one of the most responsible and constructive in recent history.

It is evident now that the wrong guessers of last January underestimated the courage and judgment of the men and women who represent us in the Congress. They also underestimated the ability of an informed public to communicate its concerns and convictions to those who write our Federal laws.

Members of Congress respond to the people whom they represent. Perhaps the most significant fact about the past Session is that more people -- and, certainly, more bankers - took the time and trouble to give Members of Congress their individual views on important issues. The theory of representative government rarely has been put to better use.

We of the Committee on Federal Legislation and the Washington staff have received fine cooperation this year from State Associations and individual members of banking's family. While that cooperation is encouraging to us, it is more important as a sign that bankers as a group are accepting their responsibility in the business of government. This is the foundation of an effective legislative program. It does not guarantee winning every battle but it does guarantee against losing by default.

As you probably know, the Congress in recent years had enacted relatively little banking legislation. Its attitude has ranged from indifference to antipathy. Last year, for example, the proposed Financial Institutions Act died in the House of Representatives chiefly as a result of vigorous opposition of a few Members. Inasmuch as that bill contained practically all of the major banking law revisions then pending, the sum of banking legislation in the 85th Congress was small.

I am pleased to report much happier results from the Session that adjourned this week.

The Association's legislative program this year encompassed many facets of banking legislation. Of these, four were of the broadest significance:

We advocated changes in the Federal income tax laws to bring about reasonably equal taxation of commercial and mutual financial

institutions and to provide an adequate, industry-wide bad debt reserve formula for commercial banks.

We asked that the Federal Reserve Board's powers over member banks' legal reserve requirements be revised to permit the counting of vault cash as part of the required reserves.

We recommended substantial changes in laws governing national banks to bring the lending powers of national banks up to date.

And we supported legislation to vest final authority over bank mergers in the Federal supervisory agency having jurisdiction over the resulting bank.

Of these four major objectives, two were enacted into law, one is half-way through the Congress, and good initial progress has been made on the other.

The Reserve Requirements Reform Act won overwhelming approval in both the Senate and the House and became Public Law 86-114 when signed by the President on July 28. In addition to giving authority to the Board of Governors to permit member banks to count all or part of their vault cash, the new law fixes the range of reserve requirements for both central reserve city and reserve city banks at 10-to-22% and requires the elimination of the central reserve city classification no later than July 28, 1962. It also permits the Board to reclassify central reserve city and reserve city banks to a lower classification on the basis of the individual bank's business characteristics.

One important effect of the law is to give the Board greater flexibility in promoting sound economic growth. The vault cash provision is of great potential importance to smaller banks in particular; when invoked by the Board, it will place these institutions in a better position to meet the legitimate credit needs of their communities.

The Association vigorously supported this legislation in the Congress. As a matter of fact, enactment of the law represents a culmination of a five-year effort by the A. B. A. in behalf of needed legal reserve reforms. In 1954 our Economic Policy Commission undertook a thorough study of the reserves problem and publication of the results of the study in 1957 served to focus public attention on the area and to encourage Federal Reserve authorities to recommend Congressional action.

It is obvious that patience and persistence play a big part in any successful approach to the Congress.

Amendment of the national bank laws, like the reserves reform, has been a long-time Association goal. It was achieved by the enactment of two bills signed into law only last week. Most of their provisions were included in the Financial Institutions Bill which failed to pass the previous Congress.

One of the measures, Public Law 86-251, revises the lending powers of national banks in a number of respects, including authorization for an increased dollar volume of construction loans and new authority for financing the construction of industrial or commercial buildings without being subject to the real estate loan limitation. It also provides for an increased borrowing authority, an increase in the limitation on certain loans secured by frozen foods and dairy cattle, and some modification of the limitation on certain types of consumer instalment loans. It also raises from 66 2/3% to 75% the maximum loan-to-value ratio of 20-year amortized real estate loans.

Public Law 86-230 is primarily a technical measure. It eliminates obsolete provisions in older laws governing national banks and makes a number of other helpful changes.

Both of the original bills were introduced by Representative Paul Brown of Georgia, who is chairman of a key House Banking and Currency Subcommittee. The Chairmen of the full Banking and Currency Committees, Representative Brent Spence of Kentucky in the House and Senator Willis Robertson of Virginia in the Senate, were among leading supporters of the bills.

The changes in these laws, as I was privileged to state in testifying before the Banking Committees, are consistent with sound, modern banking practices and will permit national banks to better serve their customers.

A bank merger bill which accords with the Association's views passed the Senate in May and probably will be taken up in the House next year. We shall recommend favorable House action.

Introduced by Senator Robertson, the Bill (S. 1062) would fill a void in present law by placing final authority in the Federal bank supervisory agencies under conditions that would have the effect of tightening the procedure to which merger requests are subjected. It provides that in acting on a merger request the Comptroller of the Currency or the Federal Reserve Board or the F.D.I.C. must take into account the competitive factors as well as the banking factors involved and also must request a report from the Justice Department as to the competitive factors. Each agency also would be required to consult with the others for the purpose of developing uniform standards.

This procedure, in our opinion, would insure responsible control of bank mergers. Certainly, it is superior to another proposal, turned down by the Senate, which would have subjected bank mergers to the Clayton Anti-trust Act and to the administrative judgment of the Justice Department.

With respect to legislation to provide for fair tax treatment of financial institutions, this year's developments support two definite observations. First, the Association by advocating a specific tax revision formula and securing its introduction in the Congress has taken a big first step toward the goal. Secondly, the achievement of that goal is going to require substantial time and effort and the concerted support of all those who believe in equitable taxation.

The Mason Bill which we favor - H. R. 7950 - would provide a new base and method of taxing savings and loan associations and mutual savings banks so as to permit these institutions to bear a fair share of the tax burden. It would prevent the avoidance of taxation by mutual institutions through the device of paying out more of their pretax earnings to their account holders. We believe it would serve the purpose and the principles of a sound, competitive financial system.

The inequities that result from existing laws are obvious and acute. In 1958 commercial banks paid Federal income taxes amounting to approximately 41% of their net income, while savings and loan associations and mutual savings banks paid approximately 1% of net income. Neither the public interest nor the future soundness of financial institutions is advanced by so lopsided a division of tax obligations.

The Mason Bill is pending before the House Ways and Means Committee where all tax legislation starts. It is one of a great many pending tax bills which the Committee will endeavor to evaluate and process in the coming Session. As a preliminary to this step the Committee will hold hearings in November at which specialists in various phases of taxation will offer recommendations.

The outlook for eventual action in this sector of the taxation field is favorable. How soon the action comes and what form it takes will depend upon a number of things, including the degree of public interest and support which is mustered in behalf of the Mason Bill in the months ahead. The fact that the A. B. A., the Independent Bankers Association, the Bankers Committee for Tax Equality, and the Roth Committee are jointly backing the Bill is all to the good. But decisive results will be achieved only if organizational efforts are strengthened and sustained by the efforts of individual members. Hard work and perseverance are very much in demand.

Time does not permit a complete listing of other Congressional developments of pertinence to banking. Among the more important items are the following:

Legislation providing for a simpler method of determining the base of the F.D.I.C. assessment was introduced in both houses last month. One effect of the bills would be to increase the assessment credit to insured banks from 60% to 66 2/3%. We expect to support these measures when they are given active consideration next Session.

The third and final version of the omnibus housing bill as passed and sent to the President last week contains a number of provisions recommended by the Association, including one that would exempt F.H.A.-insured loans from the aggregate real estate loan limit of national banks. The bill also omits several provisions which appeared in the earlier versions and to which we objected as being inflationary or inconsistent with the Federal Government's housing responsibilities.

The Congress also made moderate adjustments with respect to the Small Business Investment Act and the business lending program of the Small Business Administration. The changes conform generally to A. B. A. views.

Legislation introduced early in the Session to revise the Federal Credit Union Act would have provided for extensive liberalization of the powers of Federal Credit Unions and for the establishment of central credit unions. As finally passed in a modified form and sent to the President, the measure increases the maximum authorized loan maturity limit from 3 to 5 years and raises the unsecured loan limit from $400 to $750. Instead of authorizing the formation of central credit unions - a proposal which we strongly opposed - it simply directs the Bureau of Federal Credit Unions to study the idea and report on it to the Congress.

Judged by any reasonable standard, this has been a good year for banking legislation. Banking's views have been accorded a fair hearing and constructive attention. We cannot fairly expect more.

A great deal of work remains to be done, particularly in the crucial field of taxation. For the initiative and education and persuasive powers that will be needed to advance this and other objectives in coming Sessions, we must look chiefly to our own ranks. The need, now and for the future, is for the personal interest and participation of every member of banking's family.

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