

FROM:
AMERICAN BANKERS ASSOCIATION
THE NEWS BUREAU

RELEASED AT 2:00 P.M.
MONDAY, MAY 30, 1960

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Room 436, Statler Hilton Hotel
Boston, Massachusetts

TRENDS IN FEDERAL BANKING LEGISLATION

Address of M. Monroe Kimbrel, Chairman of the Committee on Federal Legislation of the American Bankers Association, before the 58th Annual Convention of the American Institute of Banking, Statler Hilton Hotel, Boston, Massachusetts, Monday Afternoon, May 30, 1960. Mr. Kimbrel is executive vice president of the First National Bank, Thomson, Georgia. The A.I.B. is the educational section of the A.B.A.

Historians of a later day will no doubt search hard and long for the explanation of banking's remarkable progress during the twentieth century. Their task would be ever so much simpler if they could share with us the experience of attending this great Convention.

The American Institute of Banking has attained a stature and influence which are felt far beyond the field of banking itself. It has pioneered a system of adult education so successful as to inspire wide imitation. It has created within the banking business a self-replenishing source of leadership and ideas. Most important of all perhaps, it has served to develop a spirit of fellowship and concern for the human values and relationships that are basic to sound banking judgment.

For these and many other reasons, the time and effort you invest in your A.I.B. chapters add up to an investment from which all of us benefit. At a time when bank services are geared more and more to the needs of the entire community, the activities of your local chapters afford an increasingly important point of contact with community life.

In this connection, we have heard and read a good deal about the rather general effort now under way to give the public a true image of banking. The object, of course, is to personalize and popularize our services--to do away with

what is left of the old notion of the banker as a cold fish. It occurs to me that the problem would be solved once and for all if we could just put your A.I.B. Convention on the road and let it be observed up close by people throughout the country.

There are a lot of "ifs" in any undertaking aimed at correcting or changing public impressions. This is especially true of the area in which the A.B.A.'s Committee on Federal Legislation functions.

Before reporting on the work of our Committee, it may be well to review certain factors underlying the relationship between banking and the Congress.

Historically, banking has not played an effective role in the federal legislative process. Until fairly recently, there was no substantial agreement within banking as to what its role should be. Today, we have that agreement. There is a general and growing recognition of, first, the importance of federal legislation to sound banking operations, and secondly, the responsibility each of us has to furnish legislators with such facts and opinions as may help them to legislate wisely. There is also an awareness that members of Congress expect and welcome such assistance.

This, of course, represents the bare beginning of an effective legislative service. Many other elements figure in the end result. But unless there is this widespread interest and assumption of personal responsibility, there can be no good result at all.

The legislative process responds, for the most part, to group expressions. A central government as large and complex as ours has little opportunity to sample individual opinion. So citizens and members of Congress alike have come to rely upon representative organizations as channels for communicating public sentiment.

We also have to recognize that these channels are crowded and competition within them is keen. It isn't enough to present one's views with clarity and force.

The presentation must be better than the other fellow's. It must accord with the congressional estimate of the public interest, and it must appeal to the individual congressman's sense of responsibility to the folks back home who elected him.

It has been said often that banking and politics do not mix--and, certainly, within the limits set by good laws and good judgment, this is true. At the same time, I think there has been a tendency on the part of bankers to apply the rule in a way that was never intended. For it is also true that our system of government functions through political structures and with attention to political values. We can serve neither the public nor banking interests if we imagine ourselves to be somehow excused from participation in legislative decisions.

The Second Session of the 86th Congress is expected to complete its work in a little over a month. Its record with respect to banking legislation has been surprisingly good.

I say "surprisingly" because the outlook following the 1958 elections, you will recall, was believed by many to be anything but promising. Forecasters told us that in view of the economic philosophy supposedly represented by a majority of those in Congress, there would be very little useful activity in the area of business and finance.

Well, the Congress has a way of making up its own mind on issues as they arise--and under the leadership of such men as Senator Robertson of Virginia and Representatives Spence of Kentucky and Brown of Georgia, this Congress disposed of a number of questions of the broadest importance to banking.

For example, the question of where and how Federal Government authority over bank mergers is to be asserted has been a subject of dispute and confusion for many years. The Congress settled it several weeks ago by enacting a merger control bill of the type which the American Bankers Association has recommended.

The new law places responsibility for approval of bank mergers in the federal bank supervisory agency having jurisdiction over the resulting bank. It

requires the agency to consider six banking factors in reviewing a merger application: (1) the financial history and condition of each bank involved; (2) the adequacy of its capital structure; (3) its earnings prospects; (4) the general character of its management; (5) the convenience and needs of the community to be served; and (6) whether the bank's corporate powers are consistent with the purposes of the Federal Deposit Insurance Act. It also requires that the agency consider the effect of the proposed merger on competition and whether, in view of all these factors, the merger would serve the public interest.

The law, we believe, is reasonable and fair. It fixes federal responsibility where it ought to be--in the agencies having experience and daily contact with banking matters. It sets up standards which should insure that merger requests will be handled with consistency and care.

The history of this legislation points up the importance of patience and perseverance in congressional relations. Bills of this type have been before the Congress repeatedly during the past five years. Twice in previous Congresses, the Senate voted approval of merger legislation only to have the House take no action. Yet, the earlier consideration of the bills which fell short of passage helped pave the way for enactment of the law this spring.

Another extended effort produced good results last year when the First Session of the 86th Congress revised the powers of the Federal Reserve Board over legally required reserves of member banks. As a result, the Board now has authority to permit the counting of all or part of vault cash as required reserves. We advocated this and other changes in the law to increase the effectiveness of the Board's control over monetary policies and to enable banks to meet more fully the legitimate credit needs of their communities.

In both instances--reserve requirements and mergers--the laws finally enacted embody some modification of the bills originally introduced. This is the rule in an area of public procedure where compromise is universally regarded as a

condition of progress.

A third major accomplishment of the present Congress was the enactment of two laws modernizing the lending powers of national banks. These provisions, as well as the merger control proposal, were included in the omnibus financial institutions bill which passed the Senate in 1957 but died in the House the following year. The national bank provisions then were introduced and considered separately in 1959 and went through the Congress in a matter of months.

The most important bill now pending in Congress, in the view of our Federal Legislation Committee, is the Mason Bill. This is the measure, based upon principles endorsed by the A.B.A., which would bring about reasonably fair tax treatment of commercial banks as compared with savings and loan associations and mutual savings banks.

Under present law, commercial banks on the average pay federal income taxes at a rate 30 to 40 times greater than that applied to the two types of mutual institutions. As a matter of fact, many savings and loan associations pay no federal income tax at all. They are permitted to escape taxation by provisions of the law which we believe are unjustified and contribute to an unfair competitive situation.

It was to focus public and congressional attention on this inequity that Representative Mason of Illinois introduced his bill last year. The bill is not intended to achieve tax equality. It would, however, reduce to reasonable proportions the existing inequality--and it would do it without loss of revenue to the Treasury.

The bill was referred to the House Ways and Means Committee whose leadership already had announced that it preferred to forego any piecemeal amendment of the tax laws and to concentrate, instead, on a complete revision of the code. To date, the Committee has pursued that course with the result that there has been no action on the Mason Bill and similar proposals.

However, it would be a mistake to count these past months as time lost. The Committee has received a considerable volume of testimony and other information on the subject. The issue has been reported in some detail in the press and discussed at length at meetings throughout the country. It is beginning to attract the attention it deserves and needs as a basis for congressional action.

That the Congress will act, I have no doubt. It is a question of time--of educating--of developing a broad understanding of the facts that establish the need for action.

Also pending at this time and likely to be reintroduced next session is the so-called "Full Disclosure Bill" sponsored by Senator Douglas of Illinois and a number of other senators. It would require, in brief, that lenders disclose to borrowers the finance charges in connection with instalment credit.

In an appearance before Senator Douglas' subcommittee early in May, the A.B.A. testified in support of the objective of the bill. Our spokesmen pointed out that many banks as a matter of policy advise instalment borrowers of interest charges and other costs, and that the Association's "Instalment Lending Creed," issued some 20 years ago for the guidance of member banks, includes a specific recommendation to this effect. We believe, and have so testified, that the purpose of the bill would be served by the requirement that credit costs be stated in terms of their total dollar amount. To require further--as the bill now reads--that the costs also be stated in terms of simple annual interest is in our judgment unnecessary and would confuse rather than enlighten the borrower.

There is also a serious question as to whether the Federal Government would be the proper or most effective instrument for administering a program of this kind. Instalment lending practices vary greatly among the states, reflecting economic and credit conditions in the respective areas. If additional legal protection of borrowers is needed, the states would seem to be in the best position to define and enforce it.

According to present indications, the Douglas Bill will not be passed this year. It should be noted, however, that its consideration to date has aroused a good deal of public interest. Some of the issues raised by the more zealous supporters of the bill are believed to be politically potent; this factor alone, quite apart from questions of need or merit, is often enough to keep a proposal in the active congressional file.

One of the realities we have to reckon with is that most banking bills do not rate very high on the public appeal charts. They usually entail technicalities which are difficult to explain, much less dramatize. Frequently, they are of prime interest only to banking itself, which is a relatively unimportant group numerically. It follows that we must earn through the quality and objectiveness of our approach to the Congress what other groups may be granted by virtue of their numbers or the popular appeal of their specialty.

For some time we have recognized the need for a simpler method of calculating the assessment paid to the Federal Deposit Insurance Corporation by insured banks. A bill to accomplish this was introduced at the request of the F.D.I.C., was the subject of hearings by the House Banking and Currency Committee, and is now pending in the House. The bill would also have the effect of reducing slightly the net assessment of nearly all banks. In view of the early adjournment date, it is doubtful if the Congress will complete action on it this session.

All in all, the performance of the Congress which I have summarized here indicates a keen and objective interest in banking problems. The burden of improving that performance in coming years rests not upon the members of Congress but upon us. There are still too many among us who overlook the close relationship between sound legislation and sound banking. There are too many who assume the "timid soul" approach to Washington and its legislative business.

My request to you is simple. Take the time to inform yourself with respect to banking legislation. Follow its progress through the Washington column in each issue of "Banking" Magazine, or through the information prepared by our Washington office or the respective state associations. Do what you can to encourage a better understanding of banking's role in this field in your bank, in your community, and in the Congress.

In this endeavor there is always need for imagination, for enthusiasm, and for industry. I can think of no assembly better equipped to supply all three than is this one.

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