FROM:
AMERICAN BANKERS ASSOCIATION
THE NEWS BUREAU
George J. Kelly, Director
730 15th Street, N.W.
Washington 5, D. C.

RELEASED AT 1:50 P.M.
TUESDAY, JUNE 7, 1960

Address of M. Monroe Kimbrel, Chairman of the Committee on Federal Legislation of the American Bankers Association and Executive Vice President, First National Bank, Thomson, Georgia, before the Bank Management Clinic, University of Kansas, Lawrence, Kansas, June 7, 1960

In the not-so-distant "good old days" there was little need and very little call for a Bank Management Clinic such as this. The banking business occupied a tight little island from which bankers seldom strayed. Competition was prevalent but not pressing. Working out the problems of new business and good management, among others, was something for each bank to handle in its own way and on a rather exclusive basis.

In these "good new days," there is a difference - and the Kansas Bankers Association and each of you recognize it, or you would not be here. The banking business today is highly complex, highly competitive, and involves a far greater measure of public responsibility and exposure than ever before.

Commercial banks, by and large, are truly community banks -- serving the credit needs not only of businesses but of families and individuals. We function as department stores of finance. We offer a range of services wider -- and therefore more conveniently available -- than those of any other type of financial institution.

This places modern banking in the mainstream of community life. And it imposes upon each banker a personal responsibility to play a constructive part in the development of public policies which influence the ability and opportunity of banks to do a good job.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The area of public policy that I want to emphasize today is Federal legislation.

Lawrence, Kansas is a long way from Washington, D. C., and in view of the recent growth in the population and power of our national bureaucracy, that isn't necessarily tragic. But let me remind you that what happens in Washington, and particularly in the United States Congress, has a direct impact on the management of banks in Kansas.

The fact of the matter is that the Federal Government has a lot to say about the environment and ground-rules of the banking business. We might wish it otherwise but we cannot wish it away. Banker-government relations, therefore, are an important factor not only at the national, industry-wide level but in the day-to-day operation of each of our banks.

The A.B.A.'s Committee on Federal Legislation has recognized for some time a need for increased interest and participation on the part of all bankers in our legislative program. In recent years we have noted signs of encouraging activity in this area. Let me assure you, however, that there is still plenty of room for improvement.

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.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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.

Opposition to the Mason Bill is led by those who derive competitive advantage from the present tax system. One could hardly expect them to voluntarily or willingly give up the advantage. Personally, I feel that many of the spokesmen for the savings and loan industry have already conceded in their own minds that their position is untenable and that, eventually, their institutions will have to bear a fair share of the tax load. At the same time, there is every indication that they will fight just as hard and delay just as long as they possibly can.

Indeed, their initial reaction has been to take the offensive. The Mason Bill was hardly introduced before it was attacked as a would-be destroyer of the savings and loan industry. Like other charges that have been made, this one is intended to confuse Congressional and public understanding of the issue.

It has been claimed, for example, that the Mason Bill would "soak the saver." Yet the truth is that commercial banks have more savings accounts than savings and loan associations and mutual savings banks combined -- so if the saver is suffering, he's suffering now under the system the Mason Bill would correct.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

It is also argued that the tax sought is punitive. If so, then all of the laws requiring the payment of taxes by individuals and corporations are punitive.

We hold that tax policy, to be realistic, must take account of the fact that savings and loan associations have become big business and therefore should be required to operate under tax rules that are fair and equitable, and do not favor one competitive group at the expense of another.

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis