MAJOR BANKING LEGISLATION

IN THE 87th CONGRESS

Address by M. Monroe Kimbrel, Chairman of the Federal Legislative Committee, The American Bankers Association, and Chairman of the Board, First National Bank, Thomson, Georgia, before the Bucks County Pennsylvania Bankers Association at the Warrington Country Club, Warrington, Pennsylvania.

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It is a privilege and honor for me to appear before you today to make whatever contribution I can to the very splendid program that has been arranged for this meeting. I might add that I feel right at home in this area of textile mills and farmlands, as it is very much like my own locale in Georgia.

In the past few years I have made a number of talks on the subject of Federal legislation, and many of them contained no small measure of pessimism about the relationship between banking and the Federal legislative process.

At the present time, however, we have reason to be more optimistic about this relationship. Banking is playing a more effective part in the legislative process, and the importance of Federal legislation to sound banking operations is becoming more generally recognized by bankers throughout the country. We in the A.B.A. know also that this awareness of personal political responsibility on the part of bankers is nowhere more evident than in the membership of county bankers associations such as your own, and we commend you for it.

Mr. Chairman and Gentlemen, I am glad to review for you recent developments in the field of banking legislation. It is my intention to cover only the major areas of interest, namely, tax uniformity among financial institutions, mandatory withholding on dividends and interest, the Douglas interest disclosure bill, and the proposed system of federally chartered mutual savings banks. I believe that these are the primary subjects with which bankers will be concerned in the 87th Congress.

Before dealing with specifics, I would like to describe briefly the practical background against which all legislative interests must be considered.

The national election last November gave us a new President who, for the first time in twelve years, has an overwhelming majority of his party in both Houses of Congress. One has to go back to the 81st Congress of 1949-1951 to find a parallel. In the light of political realities, however, the majorities lost some significance.

While the Senate remained virtually unchanged in both party composition and political philosophy, the House recorded net gains for Republicans and conservatives alike. Thus, the so-called "coalition" of Republicans and Southern Democrats increased in strength and is still operative, although on an erratic basis thus far this session.

I mention this because we hear so much about the effect the "coalition" can have on any particular piece of legislation. But, it is my firm belief that the division between liberals and conservatives in the Congress will have no bearing on the future of banking legislation - no more than will the division in party allegiance.

In the first place, the way a Member of Congress votes depends to a great extent on the nature of the issue before him. The conservative or "coalition" vote in the Senate during the last session of Congress ranged from a high of 51 per cent to a low of 16 per cent. In the House it was almost identical, scaling down from a high mark of 52 per cent to, again, a low of 16 per cent, based on the subject under consideration.

Second, and more important, the nature of most banking legislation transcends political affiliations, both party and philosophical.

Recall for a moment the votes over the past few years on some of these banking bills. During the 86th Congress laws were passed to revise Federal Reserve Board powers over member bank reserve requirements, to modernize the borrowing and lending powers of national banks, to vest final authority over insured bank mergers

in the appropriate Federal bank supervisory agency, and to simplify the method of determining the assessment paid by insured banks to the F.D.I.C.

Most of this legislation was passed by both the Senate and House either by voice vote or under suspension of the rules. In other words, these banking issues were not measured by partisan political yardsticks.

The cause of sound banking has been championed in Congress by Members from every bar of the political spectrum. Representative Brent Spence of Kentucky, former Representative Paul Brown of Georgia, Representative Abraham Multer of New York, Senators Willis Robertson of Virginia and Prescott Bush of Connecticut - all of these able men with diverse political backgrounds have demonstrated effective leadership in behalf of sound banking legislation.

The present Congress to date has taken little action on bills of interest to banking. President Kennedy assigned priority to 16 measures he said he hoped would be passed at the earliest opportunity. None of these is a banking measure, and only a few, such as the housing program, aid for depressed areas, social security changes, and an increased minimum wage, affect banking substantially. This "must" program has kept Congress occupied along with organizational matters, executive agency nominations, and the annual appropriations bills.

The President's recent tax message, however, has provided the impetus for two proposals of great moment to banking - one favorable and one unfavorable.

Taxation of Mutual Institutions

We were most encouraged by the President's reference to the need for greater tax equity and removal of tax preferences now granted certain classes of taxpayers. This is an important step toward tax uniformity between financial institutions.

Mr. Kennedy specifically requested a review of the tax deductible reserve provisions presently accorded certain private savings and lending institutions, which

substantially reduce or eliminate their Federal income tax liability. He also advanced the view that remedial legislation "would enlarge the revenues and contribute to a fair and sound tax structure."

The House Ways and Means Committee began hearings May 3 on the President's tax recommendations. For a while it appeared that the matter of bad debt reserves for mutual financial institutions would not be considered during these hearings, despite Mr. Kennedy's request. The Treasury, it seems had not completed its studies on this phase of the tax program. But, when Secretary Dillon appeared as the first witness before the Committee he said that the studies would be ready in June and that recommendations would be presented to Congress at that time. Since the hearings will last at least until the 9th of June, and probably longer, we are hopeful that the Committee can move right into consideration of this tax inequity.

Of course, we all know that the Ways and Means Committee has before it two identical bills which, if enacted, would not only provide increased Federal tax revenue but would also remove the present discriminatory application of Federal income tax law among commercial banks, savings and loan associations, and mutual savings banks. The bipartisan measures introduced by Representatives Harrison, Democrat of Virginia, and Curtis, Republican of Missouri, could provide the Treasury with about $350 million the first year after enactment and also place these competing financial institutions on a more equal tax basis.

The Harrison-Curtis proposal would simply repeal that provision in the Internal Revenue Code which establishes a reserve for bad debts for savings and loan associations and mutual savings banks. Such repeal would have the effect of making these institutions subject to the same statutory authority and regulatory procedures for the establishment of bad debt reserves that are now applicable to all other classes of taxpayers, including commercial banks.

I am certain that you are well informed on all developments in this matter. Probably the most significant of these came last December when five commercial bankers organizations agreed upon the principles of a tax equality program and began coordinating their efforts to secure the necessary legislation.

Since then The Independent Bankers Association, The Association of Reserve City Bankers, The Bankers Committee on Tax Equality, The Roth Committee, and The American Bankers Association have embarked on an intensive program which we hope will produce favorable results. I cannot emphasize too strongly that this is an endeavor which can be successful only through the efforts of individual bankers at the congressional district level. Your help is needed to insure that Members of Congress are made aware of tax inequality as it now exists and the solution offered by the Harrison and Curtis bills. Once that is done I am confident that remedial legislation will follow.

Withholding of Tax on Interest and Dividends

The President's tax message also included a recommendation for withholding of taxes on interest and dividends. Secretary Dillon has strongly urged in the current hearings that such a system be put into effect by January 1 of next year.

You are all familiar with the cooperative educational program which was undertaken in 1959 and 1960 by banks and other institutional payers of interest and dividends at the request of Treasury to inform individual taxpayers of their responsibility to report interest and dividends on their tax returns.

Treasury Department officials under the former Administration were opposed to withholding of taxes on interest and dividends because of the serious refund problem it would create. They were hopeful that through cooperative effort and by strengthening their enforcement procedures the gap in the unreported dividends and interest could be substantially closed and that withholding could be forestalled. The former Under Secretary of the Treasury reported as late as January of this year that the

results of the 1959 effort to inform taxpayers of their responsibility were most encouraging. According to a sample survey by the Treasury of 1959 individual income tax returns, it was estimated that the unreported dividend gap had been closed by more than 50 per cent and the gap in unreported interest by slightly less than 50 per cent.

Another reason that the former Treasury officials felt a withholding system was unnecessary was their intention to convert the handling of all tax returns to automatic data processing. It was expecting that such conversion would be started this year and be completed in all internal revenue districts within four or five years. The use of automatic data processing will greatly facilitate the matching of information returns with the regular income tax returns and thus enable the Treasury to easily determine which taxpayers are failing to report dividends or interest and to take appropriate action.

A series of meetings was held with Stanley Surrey, Assistant Secretary of the Treasury, at his request. Mr. Surrey has the responsibility in the Treasury for drafting legislation containing the Administration's tax proposals, including withholding. These meetings were attended by banking representatives who have expert knowledge of the operating problems that withholding would create in the savings departments, stock transfer departments, and trust departments of banks.

Every effort was made to convince Mr. Surrey that it is virtually impossible to develop a workable withholding system which would not be unduly burdensome to banks and other interest and dividend payers on the one hand or to widows, minors, charitable, educational, and other tax exempt organizations, and foreign governments and nationals on the other hand. It was made clear to Mr. Surrey at these meetings that the A.B.A. was reserving its position on any withholding bill that might be introduced. When the A.B.A. testifies before the Ways and Means Committee a week from Friday, we intend to reiterate the many problems and difficulties that would be created if a withholding system were to be imposed on interest and dividend income.

Federal Mutual Savings Banks System

Another proposal which concerns commercial bankers is the one to provide for a Federal System of Mutual Savings Banks.

Bills to this effect have been introduced in this Congress by Representatives Multer of New York, Rains of Alabama, and Addonizio of New Jersey.

These banks would be privately managed, organized without capital stock, and insurance by the F.D.I.C. would be mandatory. They would be permitted to join the Federal Home Loan Bank System, though not required to do so, and would be supervised by a new three-member commission. The proposals authorize the voluntary conversion of Federal and State savings and loan associations and State-chartered mutual savings banks into Federal mutual savings banks, and the conversion of Federal mutual savings banks into similar thrift institutions.

As you may know, The American Bankers Association went on record by resolution at its convention last September opposing in principle the establishment of a Federal Mutual Savings Banks System.

The Association took this position for the following reasons:

1. There are no satisfactory grounds upon which to base the need for additional savings facilities in those States that do not now have mutual savings banks.

2. In the past, the dual banking system has been extended only to institutions that had already been authorized in the several States. Forcing mutual savings banks upon States that had previously rejected or found no need for such facilities would seem to be a serious intrusion on States' rights.

3. Finally, the A.B.A. finds no grounds to substantiate the claim that the establishment of mutual savings banks would stimulate additional savings in the areas where they are to be located. The result probably would be to disperse existing savings rather than create new savings.

Identical bills were introduced in the last Congress but, as the sponsors announced, they were advanced only for study purposes.

Before the 87th Congress convened, a number of Federal agencies had given their opinions on the measure. The Housing and Home Finance Agency endorsed the bill, expressing the belief that it would tend to enlarge the supply of mortgage funds and improve the flow of funds to FHA-insured and VA-guaranteed mortgages. The Board of Governors of the Federal Reserve System adopted a neutral position, questioning whether the giving of broad investment powers to Federal mutual savings banks was desirable. The Federal Home Loan Bank Board opposed the bill, fearing that the conferring of broad investment powers on Federal mutual savings banks might turn some of the funds now used for home financing into other channels.

It is only fair to point out that these reports reflect the opinions of a previous Administration on a bill introduced in a previous Congress. However, unless there is a complete turnabout by the agencies who are doubtful of, or opposed to the idea, general acceptance of the proposal is unlikely.

Douglas Finance Charge Disclosure Bill

The last item I would like to discuss is the finance charge disclosure bill reintroduced a few weeks ago by Senator Douglas of Illinois.

The Senator's proposal would require all extenders of credit to furnish the recipient of credit a statement in writing disclosing the full dollar amount of the charges involved and would also require that these charges be expressed in terms of simple annual interest.

The basic objective of this bill is an admirable one - that is, the full disclosure of finance charges. We in the A.B.A. fully endorse this principle as do many others in the credit field. In fact, the Association 20 years ago promulgated an instalment credit creed which includes the recommendation "that banks should require that each customer be fully informed of all charges in connection with an instalment credit transaction."

But our endorsement applies only to the requirement that finance charges be disclosed as dollar amounts.

The expression of these amounts in terms of simple annual interest represents the most objectionable feature of the plan.

Even if such a requirement was necessary to enable people to compare the cost of credit, you can see the difficulties which would arise should the bill become law.

First, it is virtually impossible to express certain finance charges in terms of simple annual interest. There is no set formula or table whereby the neighborhood garage man, for example, can compute in terms of simple annual interest the cost of a battery over a 3-month period. And it is doubtful that any formulas or tables can be devised, since there are few constant factors involved in the great mass of credit transactions.

Then there is the problem of administration of such a law. At least two Federal agencies have expressed reluctance to act in this capacity.

Many States already have effective laws dealing with this subject. Pennsylvania has one dealing with motor vehicle sales. Unless your law conformed exactly to what Senator Douglas proposes, including the simple annual interest requirement, it would have to be amended. All other types of credit transactions in this State would be covered by the Federal law if your legislature did not enact a replica of the Douglas Bill. The A.B.A. feels that a disclosure law, without a simple annual interest requirement, can best be administered and enforced <u>entirely</u> at the State level.

All things considered, the simple annual interest requirement would increase the expense of extending credit, both to the lender and to the customer and would only serve to confuse the public.

This completes my review of major banking legislation in the 87th Congress.

You can see that we have a few problems to be faced in the present Congress, but none that cannot be overcome by accepting the challenge with vigor and determination. As individual bankers, we have great responsibilities - within our banks, within

our communities, and within the nation. But I believe our capacities are more than adequate to meet these responsibilities in whatever manner they are presented to us.

At this point I would like to quote an expression of thought on this subject by Mr. Ben Wooten, Chairman of the Board, the First National Bank of Dallas. I think it is most appropriate to our discussion:

> "All people, especially bankers, should develop the habit of civic courage - political courage - so necessary in a democracy. Without it, democracy ultimately becomesthe rule of the indifferent by the unscrupulous.
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> "One of our greatest responsibilities is to stand up politically in our community and be counted. As bankers and leaders of employees, let's resolve here and now that we shall take an active interest in politics. Business is going into politics, or politics is going all the way into business. An active interest in politics is a prerequisite of good citizenship, and we have been silent or semisilent too long as relates to fundamental American principles. Let's not be afraid to be full-time American citizens. The time has arrived when every businessman must exercise his convictions."

To this I can only add that bankers must keep themselves informed about legislative issues and maintain a close relationship with their elected representatives. The same combination has proven that banking <u>can</u> play an effective role in the Federal legislative process and is the key to the successes of the future.