

FROM:
THE AMERICAN BANKERS ASSOCIATION
THE NEWS BUREAU
Paul G. Collins, Assistant Director
730 - 15th Street, N. W., Washington, D. C.

RELEASED AT 6:00 P.M.
TUESDAY, NOVEMBER 21, 1961

BANKING LEGISLATION IN THE 87th CONGRESS

A REVIEW AND AN OUTLOOK

Address of M. Monroe Kimbrel, Vice President of The American Bankers Association, before the Executive Development Committee of the American Institute of Banking in the Kansas City Area, Hotel Muehlebach, Kansas City, Missouri Tuesday Evening, November 21, 1961. Mr. Kimbrel is Chairman of the Board, the First National Bank, Thomson, Georgia.

The opportunity to speak to you tonight on the subject of Federal Banking Legislation is a most welcome one for several reasons.

It always gives me a great deal of pleasure to participate in programs sponsored by the American Institute of Banking. The A.I.B. 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 constant 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.

I am also pleased to be here in my new capacity as vice president of The American Bankers Association, an honor for which I am deeply grateful. This occasion marks a new dimension in the banking career which has meant so much to me.

While it is not uncommon for the A.B.A. vice president to talk about legislation and Washington affairs, the thought must have occurred to some of you that my remarks today are simply a reflection of the matters which have occupied my attention for the past few years.

Let me assure you that the transition from chairman of the A.B.A.'s Federal Legislative Committee to my present post will in no way diminish my interest and participation in the area of Federal legislation. Within the limits imposed upon me by the many other aspects of A.B.A. activities, I hope to devote as much time as possible to the legislative scene. In fact, the increasing importance of Federal legislation to sound banking operations behooves us all to take a greater interest in what is going on in the Nation's Capital.

Finally, your kind invitation will enable me to discuss the tax uniformity public education campaign and to point out how bankers can assist in the achievement of what is currently the most important goal of the A.B.A.

Last January, at the beginning of the first session of the 87th Congress, no one expected banking legislation to be a major item of consideration. President Kennedy's priority list did not contain any proposals of direct interest to banking, although many of them affected banks because of their broad application to all business and industry. To a large extent this prediction held true. But it is worthwhile to review some of the major enactments of the first session in order to see just how the President fared and to call to mind, also, the wide range of legislative matters in which banking is involved.

Public laws were enacted in a number of areas in which the Administration had a primary concern. Housing, Minimum Wage, and Economically Depressed Areas are a few of those which affect banking in varying degrees. The A.B.A. either opposed or sought modification of features of these measures which were deemed to be particularly injurious to the banking business. I regret to say that we were not too successful.

We had better luck in obtaining corrective amendments with respect to other measures which became law. Among these were the Small Business Act of 1961,

the Small Business Investment Act amendments, the Agricultural Act, the law governing bad debt reserves of Production Credit Associations, and a limited extension of the Federal Student Loan Program. In addition the A.B.A. supported a bill, enacted in August, to permit the photographic reproduction of trust records and their introduction as evidence in Federal courts.

Of course, the President was successful in having other measures passed too, such as extended unemployment compensation, Social Security liberalization, expansion of defense and space exploration activities, and the like. However, these accomplishments have not been easy, even though they represented the least controversial features of the Administration's over-all program. Some of the bills were passed by only small majorities and necessitated compromises and pressure to keep party members in line.

The President did not succeed in getting Congress to pass the rest of his "must" program. Federal aid to education, medical care for the aged, new civil rights legislation, and other items on the list did not fare as well - and the going promises to be rough in 1962.

So, if we attempt to assess the record of the New Frontier in the first session, we cannot accept the views of extremists on either side. It reflects neither outstanding success nor complete failure. Some observers have subscribed to the view taken by Congressman Barry of New York. After trying out the President's new rocking chair, the Congressman said it was a perfect symbol of the New Frontier: "You get the feeling of motion without really getting anywhere." In view of the record, though, I feel it is much more appropriate to give the President credit for a high degree of political realism. For the most part he chose to push those measures which had the best chance of passage, and he was quick to compromise where it was necessary.

An evaluation of the first session from banking's standpoint is somewhat different. It is keyed to one subject. The American Bankers Association feels that the session was fruitful if only because of the progress made in our efforts to correct the unfair tax advantage now enjoyed by savings and loan associations and mutual savings banks. A brief review of tax uniformity developments in this session goes like this: In January Congressman Harrison, a Democrat of Virginia, and Congressman Curtis, a Republican of Missouri, introduced identical bills which would repeal the present favorable statutory bad debt reserve formula for savings and loan associations and mutual savings banks. The Harrison-Curtis bills would require these institutions to go to the Treasury and obtain approval of a reasonable bad debt formula based on eligible loans, rather than on deposits or shares, just as all other taxpayers are required to do.

In his April tax message, President Kennedy asked for a review of the reserve provisions accorded savings and loan associations and mutual savings banks, with the aim of assuring nondiscriminatory treatment among competing financial institutions.

In July the Treasury completed its study of these provisions and recommended, as part of the Administration's tax package, that savings and loan associations and mutual savings banks be permitted to retain earnings tax free only under a formula consistent with established concepts for computing bad debt reserves. This proposal was akin to the Harrison-Curtis bills and received the A.B.A.'s wholehearted endorsement.

In August the House Ways and Means Committee held hearings on the subject, taking testimony from representatives of each of the groups involved. At these hearings the principal witness for the A.B.A. was our executive vice president, Dr. Charles Walker, who at that time had been in the post only 3 1/2 months. Dr. Walker was ably assisted by Joseph M. Naughton of Cumberland, Maryland,

chairman of the Association's Uniform Tax Treatment Committee, and by D. C. Sutherland, Sr., Vice President of the Bank of America. Most observers, including some from the opposition, agreed that commercial banking got much the better of the exchange.

But, unfortunately, time ran out and the Committee was not able to complete action on the over-all tax bill. Chairman Wilbur Mills, however, did have the following comment to make with respect to the Committee's schedule for the next session: "This legislation will be perfected during the fall months and will be the first order of business in the next session of this Congress. It is hoped that the Committee can report to the House by early February 1962."

Certainly this is very encouraging, but the question remains - what are the chances for passage of a tax bill in 1962? The answer is that they are excellent, if commercial bankers will pitch in and do the work necessary to ensure enactment. This is where you come in, especially as A.I.B. members.

As you are well aware, the A.B.A. has launched an education campaign designed to acquaint the public with the real facts in the tax uniformity issue. The primary tool in the campaign is our "Tax Uniformity" kit which I am sure most of you have seen. All the materials needed to do an effective education job in your communities are contained in the kit. They can help you tell the tax justice story to thousands of persons in your area who have as much at stake as you do.

If I recall correctly, part of the specialized A.I.B. banking education program deals with public relations and communications. Many of you have become adept in these fields and more and more bankers are joining your ranks every day. Because of your training you are especially fitted to speak before local civic and fraternal groups. I urge you to seek and accept whatever speaking opportunities may come your way. I would also suggest that you offer full cooperation to your State Association. The more coordination we can attain on a statewide basis, the better our public coverage will be.

You are an important point of contact between banking and community life. Do what you can to encourage a better understanding of tax uniformity in your community. In this endeavor there is need for imagination, for enthusiasm, and for industry. I can think of no group better equipped to supply all three than the A.I.B.

At present there is little doubt that a tax uniformity provision will be in the general tax bill that comes out of the Ways and Means Committee. Commercial banking has the support of the President and the Treasury. We must now elicit the same kind of support from Congress. In the next few months bankers have a tremendous job in public education. How well we do it will be known only through the voting in Congress.

There is another element in the general tax revision bill that merits our attention. In its tentative, or draft bill, the Ways and Means Committee has included a provision to require withholding of tax on dividends and interest at a 16 2/3 per cent rate, with exemption certificates for minors' accounts and those persons who file a statement declaring they are not subject to payment of Federal income tax.

Last May, witnesses for the A.B.A. testified in opposition to the original withholding proposal which contemplated a 20 per cent tax, across the board, and without exemptions. We have also protested the new proposal for essentially the same reasons. The A.B.A. feels that such a system is neither practical nor workable and would contribute to confusion and irritation on the part of taxpayers.

We suggested a number of alternatives to mandatory withholding until automatic data processing becomes fully operative in about five years. Among these are: a continuation of the education program undertaken two years ago by banks and other dividend payers; the inclusion of appropriate questions on tax

returns to emphasize the dividend and interest tax obligation; and, increased prosecution of persistent underreporters and wide-spread publicity on violations.

A.B.A. representatives are continuing to meet with Treasury officials on this subject. The Treasury, however, seems committed to withholding. One reason for this steadfast position is that the Administration is asking for a balanced program under which tax receipts would offset calculated tax losses. The Treasury sees withholding as the major source of new revenue to recoup losses sustained through other phases of the tax program, such as the 8 per cent tax credit for business. It does not want to take a prospective sum of \$600 million off the revenue side of the scale by forgetting about withholding. Some of us would take issue with the \$600 million figure, as we would also with the Government's statistics regarding the low level of taxpayer compliance in reporting dividend and interest income. But they are stamped "official," which puts any doubters at a decided disadvantage.

Nevertheless, there are several factors which considerably brighten the picture for dividend and interest payers. One is the amount of Congressional opposition to withholding. Members of Congress have heard quite a bit of unfavorable comment from their constituents about the proposal. A second is the rapid development of ADP, the automatic data processing program which the Internal Revenue Service expects to have fully operative by 1966.

Another point in our favor should be the taxpayer account number system which became law this session. While the A.B.A. believes the system is being put into effect too quickly, we do recognize that it will be an important part of automatic data processing.

By the same token we have indicated our willingness to go along with a tightening up of information returns so as to enhance the value of ADP and taxpayer account numbers. There is some sentiment in Washington for this approach

as an alternative to withholding. If it is adopted, the Treasury would probably have to require the reporting of interest payments at a lower amount than the \$600 figure now contained in the law.

It is possible, then, that any or all of these factors might be enough to prevent enactment of withholding legislation.

Now let me briefly look ahead to some of the other unfinished business that will be considered again in the next session.

The Douglas "Truth in Lending" bill will be pushed harder than ever next year. This measure would require all extenders of credit to furnish detailed information in writing to borrowers and purchasers, regarding terms, conditions, and finance charges in connection with the transaction. The information must include the total amount of all finance charges connected with extension of credit and also such amount expressed in terms of a simple annual rate.

The A.B.A. has endorsed the objective of full disclosure of finance charges, but opposes the simple annual rate requirement because it is impractical, expensive, and virtually impossible to comply with. In addition, we feel that disclosure legislation can best be administered and enforced at the State level.

The bill is now pending before a subcommittee of the Senate Banking Committee where its proponents and opponents are just about evenly divided. Sponsors of identical legislation in the House have shown no inclination to promote their bills, in deference to Senator Douglas.

On the lighter side of this issue, the "Truth in Lending" title, which is supposed to have broad public appeal, has been countered by some opponents who are referring to the measure as the "Federal Credit Control" bill. We will be very happy if this remains at the name-calling stage.

No action was taken on two bills sponsored by the National Association of Supervisors of State Banks, but the NASSB will probably press for action next year. One of the measures would eliminate the Comptroller of the Currency as a member of the FDIC Board. The other would require two approvals of branch applications of all insured banks, one by the FDIC and the other by the State Supervisors in the case of insured State-chartered banks, and one by the FDIC and another by the Comptroller of the Currency in the case of national banks. The present requirement for approval of State member banks by the Federal Reserve Board would be repealed.

The State Supervisors have secured the introduction of these bills in both the House and Senate, and the most recent Governor's Conference, attended by the Governors of 34 States, also endorsed the proposals.

The legislation sponsored by the National Association of Mutual Savings Banks to authorize the establishment of a Federally chartered system of mutual savings banks was reintroduced early this year but did not receive consideration. However, several recent developments may stimulate Congressional action. The report of the Commission on Money and Credit of the CED gives support to such a Federal system. Also, we understand that the President's Council of Economic Advisers is in favor of the recommendation.

Two bills being sponsored by Chairman Brent Spence of the House Banking and Currency Committee, at the request of the A.B.A., have a good chance of passage in the second session. The first of these would increase the limitation of the aggregate amount of conventional real estate mortgages that a national bank may make from the present 60 per cent of time and savings deposits to 70 per cent of time and savings deposits. The alternative limitation of 100 per cent of capital and surplus would remain unchanged. This bill would also extend the

maturity of residential and farm construction loans from nine to eighteen months, making the maximum maturity for such loans the same as for industrial or commercial construction loans.

In September the Association testified on the measure before a House Banking Subcommittee. No difficulty is foreseen in getting the bill to the House floor early next year.

The other bill, also introduced by Chairman Spence, would enable national and State member banks to own stock in a service corporation. Under the bill, these banks could purchase automatic equipment through the organization of a jointly owned corporation where they might not be able to afford such equipment individually. This bill stands an equally good chance of enactment even though no action has been taken to date.

That concludes the review and outlook for major banking legislation in the 87th Congress. From it I hope you will draw some conclusions - conclusions which are most appropriate to the drive for tax justice.

Not all of our efforts to obtain legislation that we deem beneficial will succeed, nor will we always be able to prevent the enactment of detrimental legislation.

But we can be certain of one thing: None of our efforts will succeed if we fail to communicate, clearly and forthrightly, our ideas and our ideals to all segments and sectors of the public - our customers, our communities, and our legislators.

Communications is the art of making ourselves understood. Commercial banking's campaign for tax justice, as well as other legislative goals, is predicated upon public understanding. Whatever successes we do achieve will be reached largely through the communicative efforts of individual bankers. The A.B.A. is dependent upon your interest and initiative in the Tax Justice Campaign to bring about an equitable tax law in the coming year.