

FROM:  
THE AMERICAN BANKERS ASSOCIATION  
THE NEWS BUREAU  
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FEDERAL BANKING LEGISLATION

POLITICS AND PROCEDURES

Address of M. Monroe Kimbrel, Vice President of  
The American Bankers Association, before The 33rd  
Annual Midwinter Conference of the Wisconsin Bankers  
Association, The Hotel Schroeder, Milwaukee, Wisconsin,  
Monday, January 22, 1962. Mr. Kimbrel is Chairman of the  
Board, the First National Bank, Thomson, Georgia.

If you have ever seen the trick performed of successfully removing  
a tablecloth from beneath a table full of dishes, you can appreciate what com-  
mercial banking is up against in the second session of the 87th Congress.

As you are doubtless aware, the House Ways and Means Committee has  
before it a so-called "tax package" which contains a number of the initial  
tax revision recommendations made by President Kennedy last year. Two of  
them are of vital importance to banking - tax uniformity among competing fi-  
nancial institutions, and mandatory withholding on dividends and interest.

The trick we would like to perform is pulling withholding out of  
the package without upsetting the whole measure.

But before I discuss the political feasibility and prospects for  
this bit of strategy, some very good news should be reported first.

President Kennedy, in his Budget Message delivered to Congress last  
Thursday, restated in even clearer terms his recommendation that the bad debt  
reserve provisions now accorded mutual financial institutions ought to be  
changed in order to bring about more uniform tax treatment among commercial  
banks, savings and loan associations, and mutual savings banks.

Specifically, the President said that "the tax deductible reserve  
provisions applicable to mutual savings banks and savings and loan associations  
should be amended to assure nondiscriminatory taxation among competing finan-  
cial institutions."

It is noteworthy that Mr. Kennedy has spelled out savings and loan associations and mutual savings banks and that he has said the provisions ought to be "amended." In his tax message last year the President referred simply to private savings and lending institutions and asked for a "review" of the bad debt reserve provisions. Although most people knew what the President wanted all along, some spokesmen for the mutuals insisted that the Administration had no position on the matter. His latest statement should clear up any doubts about that.

At a press conference last Wednesday, Treasury Secretary Dillon was asked to expand upon the President's tax uniformity recommendation. The Secretary replied that the President's words spoke for themselves - that there should be no discrimination in favor of these mutual institutions - and here I quote, "which we presently think there is." The Secretary acknowledged that a tax formula is a complex thing to work out and that it would have to be done in cooperation with the Ways and Means Committee. He said the Treasury had no hard and fast principle in mind but that a transition period of three years seemed proper to allow a period of adjustment before these institutions were fully taxed.

The Secretary concluded by saying, "we are going to discuss this with the Ways and Means Committee on the basis of the President's statement that there should be no discrimination."

House Ways and Means Committee Chairman Wilbur Mills and other Democratic Congressional leaders have reaffirmed that the first order of business will be this limited tax revision bill. The Committee began executive sessions on the tax package last week, but is not expected to report a measure to the House before mid-February.

On the Senate side, Chairman Harry Byrd of the Senate Finance Committee has rejected the suggestion that his Committee consider tax legislation

before it has passed the House. Senator Byrd does not wish to depart from the traditional practice of waiting until House action is completed before the Finance Committee begins hearings.

Despite the fact that concurrent consideration of tax proposals by both the House and Senate would speed up action on the program, I must admit that I share the Senator's view. Congress must be extremely careful in taking up matters of this magnitude, and the whole issue might become confused if both Houses were to look at this one simultaneously.

So we have good reason to be optimistic about achieving our goal of tax justice. For the time being at least the scales are tipped in our favor.

But lest we become too assured of success, remember that the confidence which we now enjoy has often been described as that feeling one has before he fully understands the situation. This is particularly applicable to happenings in Washington.

Withholding is viewed by the Administration as the prime source of revenue to recoup the losses sustained through the proposed 8 per cent investment credit for business. A.B.A. representatives have met with Treasury officials on numerous occasions. The purpose of these meetings was to explore various proposals and suggestions for withholding which have been made by that Department, consistent with the 1961 A.B.A. resolution which states that: "The American Bankers Association pledges its continued support of efforts designed to determine whether a workable and efficient withholding system can be developed."

But we have also attempted to point out the hardships and inequities of the system. While we will continue to seek out a workable solution, the A.B.A. feels that an efficient and practicable system has not been developed, and our actions still are guided by this attitude.

It is virtually impossible to separate politics and legislative procedure in the case of the current tax bill. Many Members of Congress are opposed

to the withholding idea. Yet the Administration is pledging a balanced budget and a relatively balanced tax package as far as revenue lost and gained is concerned. The President has a strong desire not to create a revenue imbalance in either one. Congress will have to weigh this aspect against its basic feelings about withholding itself when the measure comes to vote.

Withholding is not a party issue, either. Objections have come from both sides of the aisle on this as well as other parts of the package. Naturally, the Administration hopes to keep enough Democratic Members in line for what will probably be the first major issue to be voted upon in the second session.

A break could come at any point in the legislative process. The House Ways and Means Committee must first decide on the bill which the House will consider. And since revenue measures usually cannot be amended on the House floor, the bill it receives has to be voted up or down as a whole.

In the Senate, however, after the bill clears the Senate Finance Committee, amendments can be offered during floor debate. This might be the best point at which to have withholding deleted, except that the Senate at present seems to be much more "loophole" conscious than the House.

All of these factors also have to be considered in the light of 1962 being an election year. Every Member of the House must stand for re-election in November, as well as one-third of the Senate. They are likely to be giving more attention to the people back home than to Congressional and Presidential leadership.

I want to stress that bankers are "people back home," too, and in many cases very influential ones. It is entirely possible that we can turn the trick of achieving tax uniformity without getting withholding along with it. That maneuver depends a lot on what Congress hears from the home front, and from bankers especially.

Before discussing other legislative items I would like to comment on the A.B.A.'s tax uniformity public information campaign. A good many banks are using the materials provided but there is room for improvement. To prove that our public information efforts have made some headway we need only listen to the charges of "commercial bank propoganda" coming from spokesmen for the mutuals. Propanganda, you know, is the other side's case put so convincingly that it annoys you. Judging by the reaction, the Tax Justice Kit has certainly had this effect, anyway.

We are fortunate in that the tax bill heads the Congressional priority list for the second session, because President Kennedy has given Congress a lengthy list of legislative requests - thirty-four major ones - which have been accorded top billing. Few of these affect banking directly. The President asked for new authority to reduce tariffs, to cut personal income taxes in an economic emergency, and to strengthen the nation's welfare programs. Some of the other proposals which do concern banking to some extent are revisions of the unemployment insurance system, mass transit and transportation legislation, a Department of Urban Affairs and Housing, Federal loans for school construction and Federally financed scholarships, and an increase in the public debt limit.

Naturally, all of these cannot be passed this year. Congress will probably concern itself mainly with the controversial plan for medical care to the aged, a liberalized foreign trade program, and the tax bill. Of the three, the tax bill is given the best chance of passage.

All of this leaves banking legislation in the background. There are at least two banking bills, though, that are conceded excellent prospects for enactment. Both were introduced by Chairman Brent Spence at the request of the A.B.A. One bill would increase the limitation on the aggregate amount of real estate mortgages which a national bank may make from the present

60 per cent of time and savings deposits to 70 per cent. It would also permit national banks to make construction loans on residential or farm buildings having maturities of up to 18 months without being subject to real estate loan limitations. The A.B.A. feels that enactment of this bill would be helpful in permitting national banks to more effectively meet the real estate mortgage needs of their communities. We estimate that an increase in the lending limit would add nearly \$4 billion to the mortgage investment potential of national banks.

The second bill by Mr. Spence would enable national and State member banks to own stock in a service corporation for the purpose of providing clerical services for them. It is intended to assist the smaller banks to purchase automatic equipment collectively where they could not afford to do so individually. Similar legislation has been enacted in several States with respect to State nonmember banks.

No new developments have been reported on the Douglas Disclosure Bill. Senator Douglas still intends to push for full disclosure of finance charges in credit transactions, including the simple annual rate, but its chances for passage remain dubious. The bill is still tied up in a subcommittee of the Senate Banking and Currency Committee. Although eight or nine similar bills have been introduced in the House, that body is not likely to act unless a Senate measure is passed.

The same outlook applies to the proposed Federal Mutual Savings Bank System. Bills are pending in both the Senate and House Banking and Currency Committees but neither group shows an inclination to hold hearings.

You will recall that the Commission on Money and Credit had also recommended that Federal charters be made available for mutual savings banks. Another source of support has recently come from the Chairman of the Federal Home Loan Bank Board. Not too long ago the Board opposed this bill, fearing

that the broad investment powers to be made available to Federal mutual savings banks might detour some of the funds used for home financing into other channels. At that time, too, the supervisory powers were to have been lodged with the Comptroller of the Currency instead of the Federal Home Loan Bank Board as is now proposed. At present, the FHLLB is offering support for the system in return for savings bank membership in the Federal Home Loan Bank System. As far as can be determined, however, the majority of savings and loan people are still united with commercial bankers in opposition to Federal charters for mutuals.

Most of the recommendations of the Commission on Money and Credit have received a cool reception in Congress. Only one bill concerning them has been introduced thus far. Senators Clark of Pennsylvania and your own Senator Wiley have cosponsored a bill which incorporates those CMC recommendations dealing with the organization of the Federal Reserve System. Among the more controversial provisions are the requirement that all commercial banks be members of the Federal Reserve System in order to be granted an insured status, and the cancellation of holdings of Federal Reserve bank stocks owned by member banks and issuance of a \$500 non-interest bearing certificate to each member bank instead.

We understand that this bill will not be the subject of hearings in the second session.

Nor is any action forecast on the two bills sponsored by the National Association of Supervisors of State Banks. One would exclude the Comptroller of the Currency from membership on the FDIC Board. The second would require two approvals of branch applications of all insured banks, one by the FDIC and another by the State Supervisors in the case of insured State-chartered banks, and one by the FDIC and the other by the Comptroller of the Currency in the case of national banks.

One bill introduced at the outset of the second session by Senator Metcalf of Montana should be of interest to you. It would provide that Federal savings and loan associations may establish and operate new branches in States only if State savings and loan associations, or State banks and trust companies are permitted by State law or practice to establish and operate new branches in the State. This proposal is similar to one contained in the House version of the "Financial Institutions Act of 1957" which failed to pass. It is too early yet to give an assessment of its chances this year.

You can readily see that banking's major interests in the second session will be with taxes of one sort or another.

Aside from legislative matters there is one other major issue emanating from Washington which is of vital concern to banking. I refer to the application of the anti-trust laws to banking. Let me say that The American Bankers Association can only take a wait and see attitude with regard to both the recent bank merger cases and actions pertaining to bank service charges. The Association is following these developments very closely. If it is found that the laws are not being administered fairly, or that court decisions are not in the best interests of a strong banking structure, we will have to seek a remedy, possibly by way of legislation.

Perhaps in all of these elements with which the A.B.A. deals at the national level we should look to the successes of the Wisconsin Bankers Association in its own legislative efforts. You are certainly to be commended for your work on the Wisconsin tax bill and other matters which have a bearing in the banking community of this State. Even outside of the financial realm the Badger State has acquitted itself in fine fashion. It seems that the Green Bay Packers have supplanted cheese as Wisconsin's most famous product.

I would like to make one request of you in conclusion. In the next few days why not review your work in the tax uniformity campaign. Have you done as much as you could in the way of public information? Have all of your Congressional contacts been made and are you sure that your Members of Congress are fully aware of the prevailing tax injustice?

In this State the 1960 average payment by commercial banks in Federal income tax was \$27,500. The 1960 average for savings and loan associations here was \$100. Surely this cannot help but have an impression on the public and the Wisconsin delegation if they are told the facts.

In the last analysis, the legislative viewpoints and convictions of Congress will, to a great extent, be determined by people like yourselves who live and vote in the Congressional districts.

The opinions that you and others express can be a deciding factor in the tax issue, as well as in all others that affect the future of banking.