FROM:
THE AMERICAN BANKERS ASSOCIATION
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YOUR BANK IN THESE CHANGING TIMES

Address of M. Monroe Kimbrel, Vice President of The American Bankers Association, before the Annual Convention of the Idaho Bankers Association, The Lodge, Sun Valley, Monday, June 11, 1962. Mr. Kimbrel is chairman of the board of the First National Bank in Thomson, Georgia.

During the past several months I have had the opportunity to travel in many sections of this country. I was also fortunate enough to attend the Monetary Conference in Rome last month.

If I were to select the one topic that I have heard discussed most often by businessmen here and abroad, I would have to say it is increasing competition.

Intensified competition permeates all segments of international trade and our domestic economy. With emergence of the Common Market, keen competition will be with us for some time to come.

To remain competitive, our whole domestic economy is going to have to become more efficient. The desire for increased efficiency is the main reason behind the investment incentive provision in the present tax bill, it is the reason behind the new depreciation schedule--Treasury Bulletin F--which Secretary of the Treasury Dillon has promised to complete by the end of this month. The competitive element is also a major reason behind the free trade bill.

Now, as we bankers look at these matters, we might surmise that they don't have any direct bearing on banking. This is true. But if we want to look one step further, we will realize that if these actions make American business more competitive we in banking will gain in the long run.

The banking system can prosper and grow only in a prosperous and growing economy.

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The competitive element is also increasing in our banking business. I don't think I have to spell this out in detail for you. Bankers across the country are feeling the profit squeeze. Times are changing. We cannot sit back and expect profits to rise as they did in the postwar years.

Against this backdrop, I would like to spend the next few minutes discussing what The American Bankers Association is doing and planning to do to help your bank meet the increased competition that is characteristic of these changing times.

In view of the interest by bankers in the tax bill now being considered by the Senate Finance Committee, I would like to start with this area.

As you know, the House of Representatives passed a tax bill--H. R. 10650--on March 29 by a vote of 219 to 196. Commercial bankers are primarily interested in two sections of the bill--Section 8, which deals with taxation of mutual financial institutions, and Section 19, which provides for withholding taxes on dividend and interest income.

On the tax uniformity provision, it seems obvious that both the Senate Finance Committee and the savings and loan industry have accepted the idea that the mutual thrift institutions should pay more federal income taxes. The big question now is how much. Spokesmen for the savings and loan associations admit increased taxation is inevitable, and they have even expressed a willingness to accept the formula which was approved by the House.

That provision, you recall, would give mutuals three alternatives: (1) they could deduct 60 per cent of taxable income to add to their bad debt reserves; (2) they could add an amount sufficient to bring the balance in the reserves for losses on real property loans to 3 per cent of such loans outstanding at the close of a taxable year; or (3) they could deduct an amount necessary to bring reserves to a reasonable amount if they could demonstrate to the Treasury a need for a greater reserve than is permitted under the first two alternatives.

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Undoubtedly, most mutuals would select the first alternative and pay taxes on only 40 per cent of their income. This tax would amount to roughly 18 per cent of total income, or half of the 35 per cent average tax paid by commercial banks.

Secretary of the Treasury Douglas Dillon urged the Senate Finance Committee to amend the provision so mutuals would have the choice of paying taxes on 66 2/3 per cent of income or making additions to bad debt reserves at the rate of 3 per cent of net loan growth.

The A.B.A. witnesses before the Committee said, "The Treasury proposal represents the irreducible minimum of net income which can be taxed and still approach the twin goals of adequate tax revenues and equity among financial institutions."

We feel quite confident that if a tax bill is enacted this year it will include a provision taxing mutual institutions. Just how much they will pay is hard to say at this time.

On the withholding provision, the A.B.A. feels the government should take all reasonable measures to collect taxes due on interest and dividends. However, we are convinced that the withholding arrangement in H. R. 10650 is neither practicable nor workable. A system has not yet been devised that would not contribute to confusion and irritation on the part of the ordinary taxpayers and which would not impose unreasonable hardships or inequities upon retired persons, widows, and charitable, educational, and other tax exempt organizations, as well as foreign and local governments. Nor has one been devised that would not be unduly burdensome and costly to banks and other dividend and interest payers.

There is much opposition to the withholding provision in the Senate. Some of the mail the senators have received has shown that the writers have some erroneous information, but much of it contains good logical arguments against withholding.

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Senator Byrd, a Democrat and chairman of the Senate Finance Committee, has announced that he is opposed to withholding. He, along with two Republicans on the Committee--Senator Williams of Delaware and Senator Bennett of Utah--have suggested alternatives to the proposal. They propose that a combined account number, automatic data processing system be put into effect before resorting to withholding. This suggestion, which was originally made by the A.B.A. and other groups, has been favorably received by a number of senators.

No one can predict with any degree of certainty what provision for withholding will be passed by the Senate. Nor is it certain that the Senate will take any action on the bill this year. The Senate Finance Committee will probably not have its version of the bill ready before mid-July. Delays could postpone final action.

Last week, following Secretary Dillon's discussion of a proposed major tax reform, two Republican members of the Senate Finance Committee said the present bill should be set aside until the new bill comes up.

Just what will happen is anybody's guess at this time. But one thing that I do want to emphasize is this. The President and the Treasury have both supported tax uniformity, and I feel confident that we will see some type of tax uniformity this year or next.

Keeping up with the legislative process, as you can see, is a full-time job. I have spent quite a bit of time just reviewing some of the highlights of one bill. Pending in the Congress at the present time are 11 other bills of direct interest to banking.

The Washington office of the A.B.A. is doing a tremendous job of keeping up to date on current legislation and preparing background information on legislative matters that affect banking. For example, the widespread support of the tax uniformity provision this year resulted, in large part, from the Association's efforts in making available complete background and statistical information.

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The A.B.A.'s position was based on facts. Much time and energy went into the gathering and compilation of these facts.

Our workload in Washington has increased considerably in the past few years. More and more legislation and more agency rulings are affecting banking. To make sure that banking's views are known to members of Congress and the appointed officials in Washington, we are increasing our staff there. Bill Heffelfinger, who had over 40 years of Treasury experience, was recently added to the staff to handle the A.B.A.'s relationships with the more than 30 departments and agencies that have a direct or indirect influence on banking. Others will also be added in the near future

It is hard to overemphasize the importance of this Washington office. One bill or one agency ruling can do irreparable damage to the banking industry. By the same token, constructive bills or rulings can help banking do its job in the public interest.

For example, consider the recent favorable ruling by the Internal Revenue Service upholding the full deductibility of interest on savings accounts by banks owning tax-exempt securities. The American Banker, a daily newspaper which incidentally is not connected with the A.B.A., said the ruling was "favorable. . . thanks to The American Bankers Association." If the ruling had not been favorable, the nation's commercial banks would be paying even more in federal income taxes than the approximate $1,400,000,000 paid in 1961.

It was after long and hard A.B.A. efforts to promote reform in reserve requirements that the Federal Reserve Board took action which permitted Federal Reserve member banks to count vault cash as part of required reserves.

More and more bankers are of the opinion that we should not limit our legislative interest to bills which affect banking directly. In line with this view, I believe you will find the A.B.A. taking positions on more matters that influence the course of our economy in general.

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For example, as I mentioned at the outset, the investment incentive provision and free trade bill are both measures designed to stimulate our economy. The A.B.A. feels that since banking prospers as the nation prospers, bankers have an interest in these matters. In fact, the A.B.A. testified before Congress in favor of the free trade bill.

There is also this to condiser about banking speaking up on legislative issues. If we continue to stress the importance of a sound and growing economy and then fail to take positions on bills that vitally affect the economy, how will we be received in Washington when we take a position on a matter related solely to banking?

In brief, the A.B.A. intends to make the voice of banking heard. The time could not be more propitious. Three interagency committees set up by the President are currently making studies on legislative and administrative practices relating to (1) the operations of financial institutions, (2) the operations of the federal credit programs, and (3) the operations of corporate pension funds and other private retirement and welfare programs. The groups also will study the recommendations made last year by the Commission on Money and Credit.

The A.B.A. has asked for the opportunity to present its views on the subjects being considered by each of the three committees. We can be sure that the Administration's legislative program in the 88th Congress will take into account the recommendations of these three groups.

But having said all this about the Washington function of the Association, I want to make it quite clear that this is only a part of the A.B.A.'s efforts to help your bank in these changing times.

All of us recognize that one of the biggest challenges facing our industry today is banking education. We are adding 150,000 new employees to the industry each year. With the increasing use of automation, many of the marginal jobs will be upgraded. This is indeed a big change.

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The A.B.A.'s Banking Education Committee has been working closely with representatives of state and regional schools to see what can be done to improve the level of education being offered in these schools. The B.E.C. is helping to review entrance requirements, syllabi, texts, progression of materials, and many other aspects that will help banking education meet the increased demands of the times.

Since most of our new employees are coming to us straight from high school, it makes sense for bankers to encourage the teaching of economics in our high schools. The B.E.C. now has a specialist in school relations who might be able to help you develop a closer working relationship with your local high school.

The American Institute of Banking has been cooperating with the B.E.C. in efforts to make sure that the whole educational program is coordinated. Incidentally, the A.I.B. has recently added a new approach to its correspondence program. It is called the study team plan. Under this plan, students who are taking A.I.B. correspondence courses sign up for the courses together. They then meet according to a schedule so they can benefit from two accepted principles that are recognized as successful in classroom instruction. The two principles are the stimulation that comes from discussion and the discipline that is inherent in group study.

Improving the whole educational effort will take time; it is a continuous job. However, the A.B.A. has outlined the problems and is now making progress toward the solutions.

Increasing competition calls for the increased use of specialists. Here again the A.B.A. can be considered as an extension of your own staff. One of the best examples of this teamwork is the magnetic ink language, which was essential for automatic machine reading of information on checks, that was developed by the A.B.A.'s Bank Management Committee.

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Did you ever consider how much time and effort went into developing this language? I don't want to go into the complete background of it here because I am sure that many of you have read the various progress reports that were published during the studies. However, I do want to say that this project required many, many hours of work by experts in various phases of banking. I don't think any bank could have afforded such a project. Nor could the A.B.A. have afforded to pay for all the help. But it should go without saying that this was one of the biggest steps in banking's history. Incidentally, did you know that the language--E-13B--has been adopted by several other countries as the official machine language?

Similar results--through pooled efforts--are being produced by other units of the A.B.A. The Mortgage Finance Committee is working with a group of representatives from all areas of the real estate mortgage and home building field to establish a secondary mortgage market for, and a corporation to insure, residential mortgages. This will make mortgages more liquid and therefore more attractive to banks. The smaller banks will not have to worry about tying up funds for a long period of time.

With banks showing more interest in savings, the Savings Division, through surveys, conferences, and research projects, is helping us to find more ways to attract the saving dollar. The Agricultural Committee is making similar efforts to keep us abreast of the farm credit situation.

I don't have to tell you about the drastic shifts in population that are affecting farm credit programs. The shifts are working both ways. Those who move from farm to urban areas will create new demands for services from the urban banks. This will increase competition in the urban and suburban areas. The rural bank, at the same time, will be faced with the problem of meeting the larger credit needs of the larger farms that will be left.

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A wealth of material pertaining to the special operational problems of the smaller banks is continually being made available by our Country Bank Operations Committee. This guidance covers such important areas as bank costs, service charges, audit controls, tellers and bookkeepers manuals, guides for establishing formalized training programs for new employees, and many others.

If you haven't already adopted the procedure outlined in the newly revised booklet, "How to Set Up a Salary Program in the Smaller Bank," I heartily recommend it for your consideration. It will give you a step-by-step procedure, with all of the necessary forms, for comparing the various jobs in your bank, for placing each job in a specific grade, for determining sound minimum and maximum salaries for each grade, and for comparing salaries paid by your bank with those paid for similar jobs within your competitive area.

In other words, does your bank have the sound answer to your employee's question as to the fairness of his or her compensation? I'm convinced that this type of formalized program is the only way a banker can prove to the satisfaction of the employee the soundness of the bank's method for determining salaries.

Another area where we are all relying more heavily on the Association is in the field of competition. Consider credit unions, for example. They now number 21,000 with more than $6-billion in assets. Individual bankers don't have the time to keep up with the growth of these competitors, but the A.B.A. Committee on Credit Unions does--and the Committee's information on this competition and how to meet it is made available to us all.

I cannot mention all of the A.B.A. activities such as the new interest in management development, personnel administration, trust, marketing, and research; but I think I have covered enough to let you know that the A.B.A. is doing a dynamic job in many different areas for the banking industry.

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There are three elements that make this possible. The first is the excellent job done by state bankers associations such as yours here in Idaho. Without the support and cooperation of state associations, the A.B.A. could do very little. Your efforts to present banking's views to your congressmen are very effective. Congressmen are more interested in hearing from their own constituents than they are from others. In the field of education, the A.B.A could do little without the excellent cooperation shown by state associations.

The second element, of course, is the financial support given by member banks. No association could do anything without the funds to run their operations.

The third, and by far the most important, element is the active participation in the association by its members. The time and efforts devoted to association work rebound to the benefit of everyone in banking. I cited the voluntary effort that developed the machine language. I could have listed many more similar projects that were the result of a cooperative voluntary effort.

The price we pay in time is little in comparison to the benefits we receive. I believe that more and more bankers everywhere are starting to realize to an ever increasing extent that their efforts with the state and national associations are paying off in handsome dividends.

Judging from your active interest here at this convention, I feel sure that the banking industry can count on you to continue your excellent work in the future.

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