FROM:
THE AMERICAN BANKERS ASSOCIATION
THE NEWS BUREAU
George J. Kelly, Director
12 East 36 St., New York 16, N. Y.
MU 5-5100

RELEASED FOR P.M.'s
TUESDAY, OCTOBER 23, 1962

BANKING'S NEW CHALLENGE

Address of M. Monroe Kimbrel, President of The American Bankers Association, before the Iowa Bankers Association Convention, Hotel Fort Des Moines, Des Moines, Tuesday Morning, October 23, 1962. Mr. Kimbrel is chairman of the board of the First National Bank, Thomson, Ga.

On Saturday afternoon, October 13, the 87th Congress completed its business. The Senate adjourned at 3:41; the House at 4:46. It was the longest session since the Korean War. It was the longest peace time session since 1949, the longest election year session without a recess since 1942.

The results of the session and its accomplishments are now providing much grist for the campaign mills. Naturally, almost every evaluation of the accomplishments depends on the individual's partisan convictions.

I do not intend to add my evaluation of the complete legislative record of the 87th Congress. However, I would like to comment on one aspect of it.

<u>Gentlemen, the last session of Congress was one of the most successful sessions for banking legislation that we have ever had</u>. Most of the major pieces of legislation supported by bankers were passed. At the same time there were few adverse pieces of legislation enacted.

Let's look at the record:

The biggest single item of interest to the commercial banking industry, of course, was the Revenue Act of 1962, which was signed into law by President Kennedy on October 16. This is a major step toward tax uniformity--a goal for which we have been striving for some time.

The final bill was, for the most part, the bill passed by the Senate. There were a few changes made in the tax uniformity provision, and the reporting system on dividends and interest was accepted in lieu of withholding.

(More)

Mutual savings banks and savings and loan associations will be paying an effective tax rate which is about half the rate paid by commercial banks.

It is obvious that this legislation does not provide complete tax uniformity between competing financial institutions. However, it is a significant step in the right direction because it establishes the principle of tax uniformity and indicates that an equitable solution may eventually be obtainable.

The adoption of a reporting system instead of withholding on dividend and interest payments again followed the Senate's approach.

The reporting system will require banks and other institutional payers of interest and dividends to report to the Internal Revenue Service all payments of $10 or more per year. A similar notice must be sent to the recipients of dividends and interest. Since the change will be effective for the taxable year 1963, reports of $10 or more will not be required until 1964, in most cases.

This new reporting system will require some adjustments during the first few years of its implementation. But it is clearly less burdensome to the nation's banks than a withholding system. It is also more equitable to taxpayers.

The Revenue Act also repealed the exemptions from excise taxes that federally chartered savings and loan associations enjoyed. These exemptions included taxes on telephone calls, travel, the federal documentary stamp tax, and others.

A fourth provision of the Act was the investment incentive provision. The A.B.A. did not testify on this provision; however, official spokesmen for the Association supported it because it will help business to modernize and become more efficient. The Kennedy Administration realizes this is essential if we are to compete with highly efficient productive processes of Common Market countries.

In brief, the banking industry won a major victory on the tax law.

This particular piece of legislation has received a lot of publicity. However, I hope that it did not completely overshadow some of the other items in the banking legislation package.

The Douglas Disclosure Bill, which would increase federal encroachment in the area of credit regulations, was rejected by a Senate Subcommittee. The A.B.A. has opposed this bill because we object to the idea of the Federal Government increasing its authority over states in the extension of credit. I am sure that we will hear more about this bill in the future.

The A.B.A. also supported Public Law 87-717 which raises the real estate loan limitation applicable to national banks from 60 to 70 per cent of time and savings deposits. The bill was signed into law by the President on September 28.

The Bank Service Corporation Bill, providing for bank ownership of stock in a corporation was passed by Congress October 5. The Senate amended the bill to prevent such corporations from performing activities other than services for banks. When it appeared that the bill lacked sufficient support and might not go through, the A.B.A. appraised bankers of the situation, and the bill was passed very late in the session.

The Association also supported Public Law 87-722 and Public Law 87-721. The first one, 722, transfers from the Federal Reserve to the Comptroller of the Currency the authority to grant to national banks the right to ac t in fiduciary capacities and also gives him the authority over trust powers of national banks.

The second law, 721, enables banks which operate branches to continue to operate such branches if the bank is a state bank and switches to a national charter or if it is a national bank that merges with another bank.

The final version of Public Law 87-792--pensions for the self-employed--did not contain the three Senate amendments to which the A.B.A. had raised serious objections. These three amendments were: (1) an amendment to eliminate capital gains treatment for lump-sum payments; (2) an amendment to place an annual limit

(More)

of $5,000 upon contributions to a pension plan for an individual; and (3) an amendment to make owner-managers subject to the same restrictions as the self-employed.

On October 15, President Kennedy signed Public Law 87-827 which exempts from Fed and F.D.I.C. regulatory ceilings the rates of interest that commercial banks may pay on time deposits of foreign governments, their central banks or other monetary authorities, and international institutions of which the U. S. is a member. The A.B.A.'s testimony on this bill was hailed by Democrats and Republicans alike. We supported the measure because it will be another step in the government's many-sided fight to balance our international accounts and to curb unsettling flows of money which might harm the stability of the dollar.

Banking also supported the continuation of the V-loan program under the Defense Production Act which provides for government guaranteed bank loans to companies with limited resources so they can obtain financing to meet procurement contracts. Bankers were active in getting banks exempted from a provision of the Welfare and Pension Plans Amendments which, in effect, would have required double bonding.

Bankers were also behind Public Law 87-588 which grants bank supervisory authorities the power to give foreign branches of U. S. banks the same powers as banks chartered by the country in which the branch operates.

After extensive studies by the appropriate committees, the A.B.A. testified in favor of the Trade Expansion Act--the Act which enables the President to negotiate tariff reductions. It was the view of bankers who studied the Act that it would be necessary for the U. S. to be in a position to negotiate tariffs rather than be shut out of European markets.

The Common Market is increasing external tariffs. The Trade Expansion Act may not give us a chance to increase our exports to the Common Market; however, it may give us a chance to maintain our present markets.

(More)

The legislative elements that I have just mentioned, along with others, will, of course, be discussed in detail in the Washington Bulletin and in the Federal Legislative Committee's report, which will be available in a few months. However, I thought it would be appropriate at this time to give a rundown on major items to give you an idea of the scope of banking legislation.

Why has banking been so effective in this area? The answer is twofold. First, the Washington Staff of the A.B.A. has done a tremendous job of staying on top of every development in the nation's capital that had a direct or indirect effect on banking.

Charlie McNeill, who took over as director of the Washington Office after Ben Corlett retired, has been doing an excellent job.

To further increase our effectiveness, we added Bill Heffelfinger to the staff as federal administrative adviser. Mr. Heffelfinger had 45 years of service in the Treasury Department before joining the A.B.A. staff. He is responsible for the Association's relations with the federal departments and agencies which deal with banking matters.

Just recently, John W. Holton joined the staff as federal legislative counsel. Mr. Holton was administrative assistant to Mr. Rayburn for 10 years prior to the Speaker's death. He then served as legislative assistant to John W. McCormack, the present House Speaker.

We plan to make other additions to the staff in the near future.

Also during the past year Carter Golembe of the Department of Economics and Research was transferred to Washington to act as economic consultant to the director of the Washington Office. This has helped us in providing answers much faster on economic matters.

I believe you will agree that these three men working with Charlie McNeill, backed up by a strong staff, give us a top-notch team in Washington.

(More)

They are on the spot and can act quickly if at the last minute a bill is amended or changed. They are also in continuous communications with the many agencies and departments dealing with banking, and they can provide additional background information whenever necessary.

But as important as the function of the Washington Office is, it is still not as important as the second reason for banking's success. That is, of course, the support and interest of the nation's bankers in legislative matters.

This recently developed attitude is extremely encouraging. I can speak on this matter from personal experience, having been associated with the legislative committee for five years.

This new attitude has given banking a unity of purpose and this is making our efforts effective. When members of the legislative committee or the A.B.A. staff present views to Congress on legislation, Congressmen accept these views much more readily if they know the bankers back home are vitally interested in the matter. Then too, let's be practical. Congressmen will listen to constituents much more quickly than they will to industry representatives.

At this point I would like to mention the outstanding work of Charles Wolcott, your President, Frank Warner, Secretary of your Association, and Ed Buckley, chairman of the Iowa State Tax Committee. These men, working with Iowa bankers, have had a great deal to do with banking's success.

Banker interest in legislative matters has a snowballing effect. Once a banker gets interested in a particular bill and writes to his elected representatives, he tends to follow other legislation more closely. Thus, he is in a position to offer opinions to his representatives on matters not directly affecting banking. This is to banking's credit because we cannot expect to be received with open arms if the only time we talk to a Congressman or write a letter is when we have an ax to grind.

Another point that I would like to make about this new attitude is this: legislative processes invariably take time. The tax bill is a good example.

(More)

It was under consideration for 18 months before it was finally adopted. During this period, the prospects for the bill rose and dropped alternately. If we allowed our interest in the bill to run hot and cold, the outcome in all probability would have been quite different. Interest in legislative matters must be continuous. We can never afford to sit back and rest on past accomplishments.

This is particularly true at this juncture. Next year promises to be a very busy year for banking.

One of the first items on the agenda will be a discussion of the income tax structure and tax reductions. This is of vital interest to banking because it is of vital importance to the economy. I have said it many times before, but it is something we cannot forget for a minute--the growth and prosperity of the banking system, in the last analysis, depends upon the growth and vitality of our economy.

The type of tax reduction and the type of reforms will have a major influence on the course of our economy. We have a responsibility to express banking's views on this subject. For that reason, the A.B.A. Convention in Atlantic City, last month adopted a resolution on this point. The resolution, which those of you who were present know, contained four safeguards that we feel are essential in any tax cut program. In brief, they are:

(1) That the magnitude and the character of the rate reductions must be tailored to provide additional incentives for sustained economic expansion, rather than simply to give a temporary, one-shot boost to the economy.

(2) Tax reductions must be implemented within the bounds of fiscal prudence.

(3) Even with strict limitations upon federal spending, a gradual transition to lower rates is almost certain to produce moderately unfavorable effects in the Government's fiscal position. These effects can be minimized by providing for a gradual reduction of tax rates according to a predetermined schedule, rather than by a single major reduction.

(4) The implementation of a program of tax reduction must be accompanied by a willingness to employ maximum flexibility in the use of debt management and monetary policy, including a willingness to rely on market forces for the determination of long-range rates of interest.

(More)

By making these views known early in the debate, bankers are taking the initiative and demonstrating the leadership that is expected of them by their customers and the public.

Another item that will be on the legislative agenda when the 88th Congress convenes January 9, is the bill to permit banks and other lenders to organize a national secondary mortgage market. Our objective is to improve the mortgage as an instrument of financing residential construction in order to facilitate the flow of mortgage funds from capital-surplus areas to capital-scarce areas. A secondary market financed and managed by private enterprise will help to make mortgages an attractive investment for all potential investors and lenders.

A bill to meet this objective was introduced for study during the past session of Congress. We will be in active support of it when it is reintroduced in January.

These two items--tax reduction and the mortgage market bill--will be of major interest to bankers in the near future. But the biggest area of interest will be the proposals for basic changes in the banking system.

Banking has never before been so extensively probed and examined. The Commission on Money and Credit made 86 recommendations on ways to improve the financial structure of the country. The President has appointed three interdepartmental committees to study (1) financial institutions, (2) federal credit programs, and (3) welfare and pension funds. The Comptroller of the Currency appointed a committee which submitted a report containing 84 recommendations designed to improve the national banking system. The recommendations requiring legislative action were turned over to the Committee on Financial Institutions, headed by chairman Walter Heller of the President's Council of Economic Advisers.

The three interdepartmental committees are to have their reports completed next month so any recommendations may be considered for inclusion in the Administration's legislative program for next year.

(More)

The A.B.A. wrote to these committees right after the President announced their formation. We offered to assist in any way possible, and we requested the opportunity to present banking's views at the appropriate time. In August we submitted background papers prepared by the staff on many of the recommendations that were in the CMC report. We also distributed these papers to the A.B.A. Administrative Committee and Executive Council so the matters can be thoroughly studied and the A.B.A. will be able to take a position when the time comes.

I quite frankly do not know what the reports will recommend. But there are two things that I do know. First, the atmosphere in Washington has changed considerably in the past few years. Many of the recommendations in the CMC report and many independent proposals, which in the past were not given serious consideration, will be given a full hearing. Our economy is not growing as rapidly as we would like it to grow. We are a questioning people when things are not going right. We get frustrated easily and demand changes rapidly when things do not meet our expectations. For this reason, I believe any recommendations coming out of the committees will be studied thoroughly by Congress.

The second point I want to make is this: The A.B.A. will study each and every proposal in an objective and analytical manner. We will insist on knowing the facts and figures. There will be no room in our considerations for emotions or guesswork.

When banking reaches decisions and establishes positions, they will be presented forcefully. With your help, we will do everything possible in support of measures which will strengthen our banking system. We will vigorously oppose those measures which are not in the public's best interest.

For bankers, 1963 will present some new challenges. With the extensive studies combined with the Centennial of the dual banking system, banking is going to be living in the public eye. However, I am very confident that the banking industry will be stronger as a result. I have seen at first hand the excellent work that you are capable of doing in the legislative field. I know the cohesive effect, generated by our successes in the past year, will give us the confidence and experience necessary to meet any new challenges.

#