FROM:
THE AMERICAN BANKERS ASSOCIATION
THE NEWS BUREAU
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ADDRESS OF M. MONROE KIMBREL

President, The American Bankers Association, before the 66th Annual Convention of the Indiana Bankers Association, French Lick-Sheraton Hotel, French Lick, Wednesday Morning, June 12, 1963. Mr. Kimbrel is chairman of the board, First National Bank, Thomson, Ga.

Few major pieces of banking legislation are likely to be passed in this session of Congress. In spite of this fact, I have noticed considerable interest on the part of bankers in anything and everything that has to do with the legislative process.

I suppose this enthusiasm can be explained in part as momentum carrying over from last year when banking legislation fared very well in the halls of Congress. But it also reflects, in my judgment, a growing banker awareness of our legislative responsibilities. That is both significant and encouraging.

Legislative activities must be a continuing effort. They cannot be turned on and off as our interests rise and fall. This is particularly important at a time when banking is stepping up its participation in discussions of broad public policy. We feel that it is our responsibility to enter these discussions and make banking views known. Moreover, I am confident that banking's standing with the business community, with elected and appointed officials in Washington, and with the public we serve has been enhanced by our willingness to stand up and be counted on public policies that affect our long-range economic performance.

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Because of this accelerating interest in legislation, I would like to use these next few minutes to take a brief look at some of the legislative issues now being developed in Washington.

But before commenting on particular bills, I want to mention the time element. I have stated on previous occasions that major legislation, on the average, takes about five years between the time that people start to discuss it and the time it is actually signed into law. If it runs into a snag any where along the line--in subcommittee, in committee, in public hearings and the rest--its chances of final passage are seriously jeopardized.

In short, it takes patience--patience coupled with perseverance--to arouse interest in legislation. And, it takes effort to develop the background material which may, in the end, spell victory or defeat for a particular bill.

I mention this at the outset because it has a direct bearing on some current legislative developments.

Consider, for example, the National Mortgage Market Facilities Act introduced by Senator Sparkman and Congressman Rains, chairmen of the Housing Subcommittees in the Senate and House respectively. These identical bills, designed to authorize the creation of a mortgage insurance corporation and a corporation to buy and sell insured mortgages, have been discussed widely in recent months.

Last year bills were introduced for discussion. This year bills were again introduced and just a week or so ago Senator Sparkman and Congressman Rains announced that they plan to hold hearings on the bills. The housing subcommittee will hold hearings outside the capital sometime before the close of this session. The Senate subcommittee hearings will be held in Washington, probably in August. Now, as you know, the fact that hearings are to be held does not

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mean that a bill will automatically be passed. And, I might add that we never anticipated that the legislation would be passed in this session.

Nevertheless, developments to date are encouraging. The public hearings will present us with an opportunity to put our case on record. It will require those who oppose the legislation to state their objections. Moreover, the hearings provide a focal point that is necessary to arouse the widespread interest and support that is necessary if this legislation--or any other important measure--is to be passed.

We are optimistic about the hearings because we feel they will lead to legislation that can be passed next year. I hope that all of you will follow these developments closely so you will be in a position to support banking's efforts in this area. Most of you are well versed in the particulars of this legislation. However, if you would like additional information write to the A.B.A.'s Mortgage Finance Committee.

Turning to other legislative matters, the number one item before the 88th Congress is the President's proposals for tax reduction and reform. I believe we can expect the House Ways and Means Committee to approve a tax bill by the end of this month, and there is little reason to doubt that the House of Representatives will pass that bill with a minimum of trouble.

In the past few weeks the Committee has been making tentative decisions on the various parts of the tax package, starting with the least controversial items. I am sure that you have been reading the reports in the newspapers.

Senator Byrd, Chairman of the Senate Finance Committee, has refused to consider the tax measure until it is passed by the House. The Senator did say, however, that nothing would please him more "than to be able to report a bill for responsible tax reduction." Assuming that the Senate Finance Committee

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will take at least as much time in its deliberations as did the House Ways and Means Committee, it will probably be September before the Senate has an opportunity to vote on a tax bill.

The A.B.A.'s position on tax reduction and reform has probaby been adequately explained to all of you, but I do think its essentials bear repeating since we are so firmly convinced of the necessity for tax reduction as an economic stimulant. Briefly, the A.B.A. believes that a tax cut would be an excellent incentive for long-term economic growth; however, it is also our view that unless Congress can find ways to eliminate proposed increases in Government expenditures, the tax reduction proposals should be rejected. In order to hold Federal spending at 1963 fiscal year levels, which we think must accompany a tax cut, the A.B.A. has proposed a congressionally dictated spending ceiling during the three-year transition to lower rates recommended by the President. In addition, the Association has objected to the following tax reform proposals made by the President: (1) a 5 per cent floor on itemized personal deductions; (2) a capital gains tax on property at the time of death or gift; (3) taxing lump-sum distributions from pension and profit-sharing plans as ordinary income; and (4) repealing the divided credit and exclusion.

We have also recommended a cut in the 52 per cent corporate tax rate to 42 per cent or at least to 45 per cent; taxation of savings and loan associations and mutual savings banks on at least 80 per cent of their net income; a 50 per cent ceiling on the marginal personal income tax rate; and removal of the $4\frac{1}{4}$ per cent interest rate ceiling on new Treasury Bonds.

Tax legislation has a long way to go before enactment, but I am convinced our views have been well received on Capitol Hill and there is good reason to believe that they will carry some weight during the Congressional debate.

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For a discussion of current legislation which directly affects banking, we must turn to the House Banking and Currency Committee. Last month the Committee held hearings on a proposal to increase F.D.I.C. and F.S.L.I.C. insurance coverage from $10,000 to $25,000 and during May, the Committee has been busy on the Federal Banking Commission bill, and the proposal to create a Federal Deposit and Savings Insurance Board. The Committee also held hearings on conflicts between Federal and state banking laws.

In testimony before the House Banking Committee, the A.B.A. opposed an increase in deposit and share account insurance because the need for increasing maximum insurance has not been demonstrated; the potential shifting of funds brought about by the increase might be detrimental to the economy; and an increase in insurance coverage would place excessive depositor reliance upon the Federal Government rather than confidence in sound bank management. Our testimony emphasized, however, that if insurance coverage for savings and loan share accounts is to be increased, the same increase should apply to bank deposits.

In the past few weeks, several complicating factors have arisen in connection with the proposal to increase F.D.I.C. and F.S.L.I.C. insurance. The Report of the Committee on Financial Institutions, or the Heller Committee, stated that an increase in coverage would be justified if additional steps were taken to insure adequate liquidity, sound competitive practices in attracting funds, and effective regulatory controls and standards among the various financial institutions. President Kennedy endorsed this approach and stressed that increased insurance coverage should be considered only in conjunction with other measures to strengthen the financial system.

At the request of Treasury Secretary Dillon, the Federal Reserve Board, the F.D.I.C., and the Federal Home Loan Bank Board are presently attempting to develop specific proposals which would carry out the Administration's intent.

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It is expected that the Administration will propose the following prerequisites for its support of increased insurance coverage; (1) cash reserve requirements for savings and loan associations and extension to the savings and time deposits of state nonmember banks of the reserve requirements of the Federal Reserve System; (2) standby authority over maximum interest and dividend rates paid on savings and time accounts to guard against unsound competitive practices; and (3) a broadening of conflict of interest safeguards over savings and loan associations.

While some of these proposals might be desirable, they should be equally beneficial whether the insurance limit is kept at $10,000 or is raised to a higher figure. We believe that liquidity, healthy competition, and effective controls are basic to deposit and share account insurance. If improvements are needed, they are needed now, and should not become a cause for concern only when an increase in the insurance limit is under consideration.

Any proposal to make State nonmember banks subject to reserve requirements of the Federal Reserve System will be strenously debated. Although the present suggestion relates only to savings and time deposits, it could mark the first step in extension of full Federal Reserve authority to nonmember banks. Similar proposals were bitterly debated and eventually defeated at the time of passage of the Federal Reserve Act. The Federal Deposit Insurance Corporation Act originally required membership in the Federal Reserve System, but this provision was repealed before it became effective. While the recommendation for standby rate controls, in place of the present regulation of the Federal Reserve Board and the Federal Deposit Insurance Corporation, is not as controversial, this, too, will be the subject of much discussion.

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Although The American Bankers Association opposed the increased insurance limit in testimony before the House Banking and Currency Committee, we reserved the right to examine any addition recommendations that might be made. We will be prepared to a position when hearings are held on these Administration proposals.

The proposal for a Federal Banking Commission did not receive much support during the recent hearings. The A.B.A. opposed this severe realignment of bank supervisory agencies because it would result in an undue, and potentially dangerous, concentration of power in one Federal agency. We also question the elimination of the Federal Reserve from all bank supervisory activities as proposed in the bill. Moreover, we believe that less drastic measures can be taken to obtain more uniformity and efficiency in the system.

The proposal to set up a Federal Deposit and Savings Insurance Board which would manage both the F.D.I.C. and Federal Savings and Loan Insurance Corporation has received even less support than the Federal Banking Commission bill. It is opposed by the A.B.A. because it would combine insurance systems designed to exercise distinctly different functions and would increase public confusion between the deposit function of banks and the investment function of savings and loan associations.

The bill providing for equal pay for women has passed both Houses and has been signed into law by the President. As finally enacted, the measure takes into consideration our recommendation that greater recognition be given to legitimate reasons for pay differences between men and women. And it curtail the excessive investigatory powers which would have been granted the Secretary of Labor under the proposals as first introduced.

One subject not before the House Banking and Currency Committee is the conflict of views between the Comptroller of the Currency and the Securities and Exchange Commission on the applicability of Federal securities laws to the

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Comptroller's revision of Regulation 9. Last week a Subcommittee of the House Government Operations Committee held hearings on this subject at which time a witness for the A.B.A. supported the Comptroller's action giving new authorization for collective investments by bank trust departments. At issue is whether the new authority given banks to commingle or pool accounts for investment purposes should come within the jurisdiction of the S.E.C. or the Comptroller's Office.

The A.B.A. feels very strongly that such operations of trust departments should not be subject to the Federal securities laws and that if additional regulation is needed it should be provided by existing bank supervisory agencies. We are most concerned that this conflict may prevent bank trust departments from providing trust services to self-employed persons as envisioned by Congress when it passed the Self-employed Individuals Tax Retirement Act of 1962. We see no basis for dual regulation of these funds and believe there is no question of the bona fide fiduciary nature of trust investments covering accounts for the self-employed. We also believe that the new commingling authority for managing agency accounts does not come under S.E.C. jurisdiction.

As evidence of our concern over these problems the president of the A.B.A. Trust Division has appointed a special committee to present to the S.E.C. the views of the trust industry on the question of regulatory jurisdiction over collective investment funds. The Committee has held one meeting with S.E.C. officials, and we expect that the two groups will meet again in the near future.

Another matter concerning the Securities and Exchange Commission and banking is the recent S.E.C. proposal to extend various reporting and other requirements now applicable to securities listed on national exchanges to securities traded over the counter. This would, of course, include bank securities.

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The proposal would cover banks and companies with more than $1 million in assets and 750 shareholders, with the provision that the regulations would apply to companies with 500 shareholders within two years. At the outset, 400 banks would be affected and 200 more would be affected after two years.

The draft legislation included a provision which would permit transfer of such regulation affecting bank securities to the appropriate Federal supervisory agency--that is, the Federal Reserve, the Comptroller of the Currency or the Federal Deposit Insurance Corporation. The Association stated, when this proposal was made known, that although we question the need for additional legislation with respect to bank stock, we were pleased that the S.E.C. had implicitly recognized the fundamental principle that bank regulation should rest with the bank supervisory agencies.

The A.B.A. is now studying this proposal to determine two points: First, whether there is any need for additional legislation concerning the trading of bank stock. Second, if Congress should decide to pass legislation, whether the S.E.C. proposal is the best way to assure that the regulation of bank stock rests solely with bank supervisory agencies.

We have not yet taken a position on the matter because our studies are still under way. We plan to have the studies completed very shortly so we can testify when hearings on the proposal are held later this month.

The Douglas Disclosure bill may become active again in light of a recent vote by Senator Douglas' Subcommittee on Production and Stabilization to hold hearings on the measure both in Washington and around the country. As I am sure you know, the A.B.A. supports the concept of full disclosure of finance charges but objects to the simple annual rate requirement. We would also prefer to see full disclosure statutes enacted at the state level.

The proposal for Federal charters for mutual savings banks might possibly be the subject of hearings during this session of Congress. In a recent speech before a National Association of Mutual Savings Banks meeting, Representative Multer of New York promised that hearings would be held this year on this bill to establish a Federal system of mutual savings banks. Mr. Multer did not specify the dates of such hearings, nor did he indicate whether the

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full House Banking Committee or one of its subcommittees would conduct the hearings. Additional impetus was given to this proposal last month when the Heller Committee report was issued. It contained a suggestion that voluntary Federal charters should be available for mutual savings banks subject to adequate supervisory standards and safeguards.

Now I would like to turn for a minute to what may eventually become the most important banking study made in recent years. I refer, of course, to the report of the Committee on Financial Institutions which contains twenty-four "conclusions" on legislation and administrative practices relating to the operations of financial intermediaries. While it is generally felt that the Heller Committee's conclusions, or recommendations, will not become an Administration program for overhaul of the banking system, there is a widespread view that the recommendations will be used as Administration policy whenever Congress considers legislation touching on these recommendations.

Some of the items in the report will, of course, arouse differing opinions from bankers, but in general, the conclusions are neither revolutionary nor adverse to the best interests of banking. Consider, for example, the Committee's conclusion on branch banking. The Committee stated, and I quote, "that the Federal and state governments within their respective authorizations should review present restrictions on branching with a view to developing a more rational pattern, subject to safeguards to avoid excessive concentration and preserve competition." This is a far cry from what some observers thought the branching recommendations might be.

By the same token the Heller Committee, while agreeing that cooperation and coordination among Federal bank supervisory agencies could be improved, concluded that Federal supervisory agency consolidation was not the answer to the problem. Instead the Committee recommended that all Federal supervisory

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agencies, including those relating to savings and loan associations and credit unions, should meet at regular times to discuss and resolve matters of current and mutual interest. Only if this approach fails would the Committee recommend consideration of more drastic measures.

As I indicated before, the recommendation on reserve requirements for nonmember banks would be controversial, and the conclusion that the supervisory agencies have standby authority over interest rates on time and savings deposits would evoke debate. Aside from those items and the recommendation for Federal charters for mutual savings banks, the report should not cause undue concern for commercial bankers.

I have not covered all of the banking legislative activities going on in the nation's capital. Nor have I touched on many other pieces of legislation that indirectly affect the banking industry. However, I believe I have mentioned enough to convince you that this is a vitally important area for bankers all over the country. The A.B.A. has expanded its Washington staff to make sure that every proposal which affects banking directly or indirectly is closely scrutinized and brought to the attention of bankers. Those of you who have testified on behalf of banking, and those of you who have worked on various committees studying proposed legislation know that things can change rapidly in the legislative process. This emphasizes the need for us to come to grips with issues when they are proposed and stay with them as they move through legislative channels.

Our legislative efforts cannot be turned on and off like a faucet--they must be constant. We cannot ignore proposals until they are reported to the floor of the Senate or the House. It is much easier to advance sound, logical arguments when all other arguments are being considered than it is to try to erase erroneous impressions after they have been advanced.

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Fortunately for the banking industry, more and more members of Congress are becoming aware that the A.B.A. is willing to stand up and testify on matters relating to banking or matters which effect the entire economy. Because of this, they seek the A.B.A.'s views on many matters before they even propose legislation. At the same time, there is a constant flow of background information being given, upon request, to members of Congress and to the Federal Agencies which have a direct relationship with banking.

I am confident that this encouraging development will continue. And I am also confident that the A.B.A., working closely with bankers from Indiana and all other states, will continue to do an excellent job of representing banking in the nation's capital.

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