

Act Number	Session	Bill Number	Total Number of Committee Pages	Total Number of House Pages	Total Number of Senate Pages
PA 71-311		6946	9	1	2
<u>Committee Pages:</u> <ul style="list-style-type: none"> • <i>Banking 46-54</i> 				<u>House Pages:</u> <ul style="list-style-type: none"> • <i>2411(consent)</i> 	<u>Senate Pages:</u> <ul style="list-style-type: none"> • <i>1991-1992</i>

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**CONNECTICUT
GENERAL ASSEMBLY
HOUSE**

**PROCEEDINGS
1971**

**VOL. 14
PART 5
1968-2502**

Tuesday, May 11, 1971

10.

THE CLERK:

BUSINESS ON THE CALENDAR. TUESDAY, MAY 11, 1971, Page 1
of the Calendar. CONSENT CALENDAR.

THE SPEAKER:

May we have your attention since we have reached
Calendar Business. The Clerk has called the Consent Calendar.

The gentleman from the 95th.

MR. SARASIN: (95th)

Mr. Speaker, I move acceptance of the Joint Committee's
favorable reports and passage of the bills on today's Consent
Calendar, which are:

Cal. 683, Sub. for H.B. 7242, AN ACT AUTHORIZING THE CITY OF
GROTON TO ISSUE PUBLIC IMPROVEMENT BONDS AND BORROW MONEY
IN ANTICIPATION THEREOF. FILE 755.

Cal. 739, Sub. for H.B. 5192, AN ACT CONCERNING LOAN REPAYMENT
SCHEDULES OF CREDIT UNIONS. File 741.

Cal. 740, Sub. for H.B. 6943, AN ACT CONCERNING THE COMPENSATION
OF SAVINGS BANK ADVISORY BOARD MEMBERS AND DIRECTORS. F. 745.

Cal. 741, Sub. for H.B. 6946, AN ACT CONCERNING CHARITABLE
CONTRIBUTIONS OF SAVINGS BANKS. File 734.

Cal. 744, Sub. for H.B. 6713, AN ACT CONCERNING BUSINESS
ENTERPRISES WHICH FAIL TO PAY PERSONAL PROPERTY TAXES. F. 730.

Cal. 746, Sub. for H.B. 8930, AN ACT CONCERNING CHARTER
POWERS IN REFERENCE TO MUNICIPAL OFFICES, BOARDS, COMMISSIONS
AND AGENCIES. File 731.

Cal. 747, H.B. 8509, AN ACT CONCERNING MINIMUM PROVISIONS IN
AUTOMOBILE LIABILITY POLICIES. F. 742.

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SENATE

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Favorable substitute report of the joint standing committee on Banks and Regulated Activities on Substitute House Bill 6943.
An Act Concerning the Compensation of Savings Bank Advisory Board Members and Directors.

SENATOR BUCKLEY:

Mr. President, I move acceptance and passage.

THE CHAIR:

Will you remark?

SENATOR BUCKLEY:

Allows savings banks to compensate members of their advisory board. In most instances, they have been doing it anyway but a question came up in some audits as to whether they have statutory authority to do it.

THE CHAIR:

Question is on passage. Will you remark further: If not, all those in favor of passage signify by saying "aye". Opposed, nay. The ayes have it. The bill is passed.

THE CLERK:

Third item on Page 14. Calendar No. 719. File No. 734.
Favorable substitute report of the joint standing committee on Banks and Regulated Activities on Substitute House Bill 6946.
An Act Concerning Charitable Contributions of Savings Banks.

SENATOR BUCKLEY:

Mr. President, I move acceptance and passage.

THE CHAIR:

Will you remark?

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SENATOR BUCKLEY:

The bill permits that banks in some parts of the State who wanted to contribute, make a charitable contribution to educational associations for higher educational purposes, especially to do so, and provides institutions which receive such contribution shall be tax-exempt institutions under the internal revenue code.

THE CHAIR:

Question is on passage. Will you remark further? If not, all those in favor of passage signify by saying "aye". Opposed, nay. The ayes have it. The bill is passed.

THE CLERK:

Fourth item on Page 14. Calendar No. 720, File No. 755. Favorable substitute report of the joint standing committee on Government Administration and Policy on Substitute House Bill 7242. An Act Authorizing the City of Groton to Issue Public Improvement Bonds and Borrow Money in Anticipation Thereof.

SENATOR SULLIVAN:

Mr. President, I move acceptance of the joint committee's favorable report and passage of the bill.

THE CHAIR:

Will you remark?

SENATOR SULLIVAN:

Mr. President, this is an act authorizing the City of Groton to borrow up to amounts of \$500,000.00 for public improvement and to borrow in anticipation of these bonds. It's an act that

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would like to give the Committee a substitute bill at this time, and our statement in support of it. This is a technical bill. Some banks, when they make a loan of \$5,000. and charge, say \$200 interest on it, instead of describing it that way, describe in terms of a discount. They say that they're making a loan of \$5,200 and discounting \$200 in advance. This has created a problem for some of the Bank Examiners. They've seen a bank carrying a loan of \$5,200, where the statute prescribes a maximum of \$5,000. It's clear under the Truth and Lending Act, this is really a loan of only \$5,000. And, our substitute bill uses the language of the Truth and Lending Act to clarify this.* Thank you.

Rep. Blake:

Any other proponents of this bill? If not, any against? Anyone wishing to speak against this bill, please come forward. Seeing none, we'll call the hearing on this bill closed.

Move on to 457. Any proponents of 457, please come forward. Anyone in opposition to 457? Hearing none, we'll declare the hearing closed on 457.

Bill #461. Anyone wishing to speak in favor of this bill, please come forward. Seeing none, anyone wishing to speak against this bill? Please come forward. Hearing no speakers and seeing no speakers, we'll call the hearing on this bill closed and move on to the next one.

Bill #463. Any proponents? Please come forward. Anyone wishing to speak against this bill? Please come forward.

Mr. Goodspeed:

Mr. Chairman and members of the Committee, my name is Norwick Goodspeed, Chairman of the Legislative Committee of the Savings Banks Association, speaking with regard to Senate Bill 463, which is a Banking Department bill. And, I wonder whether, at the same time, it may be possible to discuss House Bill 6946, which is the fourth from the bottom on page 20, if you

* See Schedules 2

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have today's Bulletin, which also is an Act Concerning Charitable Contributions of Savings Banks. The second bill, the House Bill for 6946, is a bill submitted on behalf of the Savings Banks. If it'd be simpler, perhaps we could wait until that one comes. Both of these bills deal with Section 36-138 which limits charitable contributions of Savings Banks and, very gratefully, the present limit is 2-1/2% of net operating income. The change which we would like to submit, there are two changes actually, the first, I believe there is no objection from the Banking Department's point of view, is to insert the word "educational" so that Savings Banks may make contributions to educational institutions, non-profit educational institutions, as well as the institutions now permitted, which are defined as charitable or public welfare institutions or hospitals. All of us frequently are solicited for contributions by local educational institutions. And, as we get more local educational institutions, in my own area, for example: Fairfield University, The University of Bridgeport, Sacred Heart, etc. and we would like to be able to support local community institutions. Some years ago, apparently the Attorney General ruled that the present language of the statute, which says only "charitable or public welfare purposes", does not include educational institutions. And so, our bill does the- request the insertion of the word "educational". And, I understand from the former Commissioner Bardeck that there is no objection from the Banking Department. Now we get to the second point, and that is where the Banking Department has

Senator Buckley: Excuse me. May I ask a question? I don't see the word "education" in either one of these bills. Maybe I'm missing it, but

Mr. Goodspeed: I'm sorry, Senator, and I think I'm going to have to back up because I do not have the- what I'm looking at is an earlier version of a change which was to insert the word "educational". And, you're absolutely correct in 6946

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and I apologize. What was finally submitted was a change which, in effect, eliminates the definition of "charitable or public welfare purposes" and substitutes instead, a definition which, in effect, says "contributions may be made to any organization - contributions to which are deductible, under the U. S. Revenue Code". I'm sorry and I apologize. I was looking at an earlier version of the proposed bill. But, the intent was to broaden the scope of the institutions to which Savings Banks could make a charitable contribution and specifically, the intent was for educational institutions, but the language of the bill has defined it more broadly as an organization which, contributions to which, would be deductible under the Internal Revenue Code. Sorry. Thank you for correcting me on that.

Senator Buckley:

Mr. Goodspeed, if I might ask a question, or make a statement first about my own preferences. Making the language broad, so broad as 6946, which I now have in my hand, which makes these tests to the standard that the organization contributions are deductible under the Internal Revenue Code. This would allow contributions to Tax Exempt Foundations for, let me put that in the form of a question. Would it involve such a scope as to make, say tax exempt foundations, the local volunteer fire company in communities - I've gone through maybe fifty of these applications for tax exemption - and they were of a myriad of organizations that seemed to qualify - farm organizations, if I remember one of the categories under the Code, etc. Why do you feel that that broad a generality is desirable?

Mr. Goodspeed:

I think that's a very sound question, Senator. And, frankly I share your view that this language in the present form is broader than necessary and broader than we seek. As I say, the initial purpose was to expand it to allow contributions to educational institutions. I think, in the

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process of studying and drafting, it was felt perhaps, it was simpler to broaden it in terms of income tax deductibility. I agree though, that there are certainly organizations that may be exempt from Federal Income Taxes which, nonetheless, don't qualify according to what we would consider to be legitimate charitable, education or welfare institutions to which we should be permitted to contribute. I would like to suggest, if I might, that we be permitted to submit a substitute bill that may now, this language, so that it meets that objective. And, we would be very happy to do it.

Senator Buckley: I couldn't find myself to be in favor of such as- a proposal as this, which would be like opening Pandora's Box.

Mr. Goodspeed: I certainly agree. And, I don't think it should be so broad as to leave the door open any wider than legitimately it should be. And, we would like, therefore, to submit a bill which makes it a little more restrictive and more clearly defined to the type of institution which we do feel we would like permission to make contributions to. The second item, is one where there is a difference between the Banking Department bill and the Savings Banks bill and there is confusion, I think, in a misunderstanding that developed between the Banking Department and our Association. The present definition is, 2-1/2% of net operating income after taxes. The Savings Banks wanted that clarified, because there was some question whether net operating income did or did not include capital gains or losses. There was also a question of whether the reference to taxes did or did not include the tax on capital gains or losses. Therefore, bill #6946, and again I do not have a copy of it in front of me, and I think I'm correct, yes, in the definition of net operating income, it says "net operating income after taxes on ordinary income". The purpose being to clearly define the base for computation of our contribution limit to operating income, meaning "not including capital gains or losses, less taxes, on operating income or ordinary income", again excluding from the computation of gains or losses.

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The reason being, our bank and many other banks, are, of course, requested on many occasions to make contributions, sometimes involving a pledge over one, two, or three year periods. When you are making up your budget for charitable contributions for the year, you can, with some degree of predictability, arrive at an estimate of what your operating income may be for the year. It is very difficult, a great deal more difficult to predict what the capital gain or loss picture may be for the year. Obviously, it depends entirely on the market, the changes in economy and whatever investment decisions may have to be made in the bank during the course of the year. As a result, obviously, your net income after- there are frequent and drastic ups and downs from year to year in gains or losses, which means that the contribution restriction is going to be fluctuating, sometimes quite widely. We would think it much better if the contribution restriction were clearly pegged "operating income" which operates on a fairly stable basis, so that it is not subject to these ups and downs based on capital gains and losses. We conveyed that thought to the Banking Department. We thought that we were in agreement on this proposition. However, the bill submitted by the Banking Department actually does the opposite. It says, "the contributions shall not exceed 2-1/2% of net operating income after net capital gains or losses", which is exactly the reverse of what we had wanted to establish. Because, as I say, our feeling was that it provides a much more stable, predictable base on which to make your capital contribution, your charitable contribution budget and actually make the contributions, if you know, with some degree of certainty, what the picture is going to be. And, it will avoid really, some substantial ups and downs in what we could actually give in any given year. And, when you're dealing with a united fund and a multitude of other organizations who have come to expect a relatively stable level of giving, it is obviously going to be

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disturbing and painful in some cases, in a given year, because capital losses have been taken, which pulls your net income down substantially. You then have to say to them, "We're sorry, but we can't give because of the investments and capital loss definition". So, that is the reason why we prefer the bill which limits this computation to net operating income.

Senator Buckley: To vary, for a moment, from the purpose of the bill; why do you feel that Savings Banks should be permitted to give any charitable contributions?

Mr. Goodspeed: That's also a good philosophical question, Senator. Obviously, a mutual institution is handling and investing the funds of its depositors. And the fury, I know, has been advanced that, being a mutual institution, we should not make any contribution; that it's up to the depositor to make his own individual decision on that score. Of course, on the other hand, you do have these institutions with funds and are substantial, financial institutions in your community, under great pressure on many occasions to support worthy, local, charitable activities, whether it be United Fund, the local hospital, or a number of other things. Certainly, it's within the province of the Legislature and this Committee to make that determination, that no savings bank or any mutual institution perhaps, should be permitted to make any charitable contribution. Obviously, we're- you might say, on the horns of a dilemma. As trustees of a savings bank, you are trustees of your depositors' funds. And, our obligation is necessarily to them. We also feel we do have an obligation to the community and that that obligation does extend to the reasonable giving to support local charitable activities. I don't know, and I really can't tell you how long this law has been on the books, which now allows this contribution. I know a few years back, I think it was at the '67 session, hospitals were added to allow us to make contributions to hospitals. Prior to

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that time, apparently they were not considered as legal recipients. Its a good question, Senator. And, I can't pretend to have the whole answer to it. Nonetheless, as a representative of our institution, I feel an obligation to the community. I would, frankly, regret it if we were unable to support institutions such as: the Bridgeport Hospital, the United Fund, the Urban Coalition, a number of other organizations. And, the banks, the savings banks as well as commercial banks, of course, are substantial supporters of some of these local institutions. And, of course, in the past year when the economy has been suffering and many of our business and industrial concerns have cut their charitable contributions quite substantially and, I'm keenly aware of it, having done fund raising for some of our local organizations, the banks have been a pillar of strength and they've been the salvation of some of those local institutions. That isn't a very adequate answer, I'm sure everyone would share the mixed emotions you have, when you have this dual roll of responsibility to depositors balanced off against the obligation to the community as a whole. Thank you, Senator.

Rep. Clark: I don't want to use the word "cost", but really its a cost to your own institution. In an average year, or last year, what would the figure be?

Mr. Goodspeed: For our institution it is between \$40,000 and \$50,000 a year and some years it's been higher, I think, and other years lower. But generally, I think, I guess it goes higher every year rather than lower. But, I think that's about the range. Last year I think it was approximately \$45,000. I am sure the needs of the various institutions always increase and I suppose you almost have to assume, as long as we're allowed to contribute, that the giving will have to increase.

Rep. Blake: As I understand it then, Mr. Goodspeed, the only thing that would happen to this money, if this Committee decided that charitable contributions were not a good idea for banks, that money would then increase an already large amount which is more or less locked into the construction of your-- the integral part of your bank, with actually no rather devious ownership as to who actually owns it.

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Mr. Goodspeed: Well, if I could answer that, Dr. Blake- Obviously, if we were not permitted to make any contributions, that money will not be expended in that form. Assuming rate ceilings are removed, that money would be distributed to depositors. Obviously, we are all subject to these rate ceilings now. But, the function of the bank, after paying expenses, after hoping to maintain the reasonable margin, 5% or whatever it may be in a reserve, which our dividend law is kind of built around as the optimum reserve for a savings bank, the depositor will receive it in the form of dividends. So, to that extent, it will reach the depositor.

Senator Buckley: Before I ask my question, I might, maybe facetiously, comment that the bills that nobody expects to have any questions on or any controversy on, oftentimes develop in this Legislature into the bills that have the greatest amount of comment on them. Now, charitable contributions which may have been necessary and desirable in a previous era, whenever this law was adopted, may, with the passage of time and other social needs in the communities, well be shifted to subsidies on low-interest housing loans instead of a broad charitable power to give to wherever, you know, somebody's favorite charity might be and, I'm sure that personal interests dictate, in some instances at least, the direction of the flow of this money from such regulated institutions. And, I'm not only talking about yours, but maybe others that are, say, included in the rate basis. Such is possible for public utility companies. That something more directly within the field of the institution, in this case, mortgage loans, it might well be a natural tie-in. In this, the year of the housing shortage and the well, I don't say that the needs of the lower income people are any less than previous years, but certainly they have a higher silhouette in the year 1971, that this might be. That was sort of- it was a shift that prompted my question in the focus of the contribution, not in the elimination of it.

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Mr. Goodspeed: Did you want me to comment on it?

Senator Buckley: I ~~made~~ made a comment. If you choose to comment on it, I'd be pleased to hear it.

Mr. Goodspeed: Well, these obviously are serious concerns. And, we feel a sincere and really compelling obligation to support some of these local charities. And I mentioned United Fund specifically, because I think that's the major- that is the institution which gets the major contribution from our bank, and I suppose, from the other banks. Now one can question, of course, many, many of the ramifications of agencies, such member agencies of a United Fund. It is the primary fund raising vehicle for charitable purposes in the community. We feel, as citizens of the community, as an institution based in the community, that it's important that we support it. Now, certainly, if the Legislature should- the General Assembly, should direct our- this kind of support that we are able to give to a community in another direction, obviously, we would certainly concur and comply. Our feelings, at this point is that, because we see the needs of local educational institutions, we would like that included. We would like to liberalize, to a very minor extent, the amount which can be given. It is still limited to this 2-1/2% after dividends have been paid. We feel this would be reasonable. It would make us better corporate citizens and enable us to do better in our communities. But, again, balancing the interests of our depositors against the interests of the community as a whole, is obviously a delicate and, perhaps, impossible burden. Thank you very much.

Rep. Blake: Are there any others who wish to speak in favor of either 463 or 6946? If not, are there any who wish to speak against these bills? In that case we'll call the hearings on these two bills closed.

At this time we invite the several members of the Legislature, who wish to speak on bills, to come forward.