

## PRIVATE ENTERPRISE IN BANKING

An Address before the New England Council Bank Management Conference

by Ralph E. Flanders  
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Coming from business into the Federal Reserve Bank, it has seemed to me perfectly natural to view banking in its business aspects, and it has interested me greatly to discover how like, in many ways, the business of banking is to general commercial and industrial operations. I wish, for a few minutes, to follow this line of thought, leading up to the points of view which seem to be necessary to preserve banking as a private enterprise.

### War Business

One of the important likenesses between banking and industry is that both, at the present time, are primarily concerned with war orders. For the banks, the major part of these war orders take the form of swollen Government portfolios. We have been asked to provide the Government with funds for carrying on the war, and the securities we hold are the evidence of the celerity with which we have met that demand.

Banking has not had anything like the obvious difficulties in meeting these war orders that other types of business have had with theirs. In fact, more business and more profit can be obtained with smaller expenditure of labor and overhead by investing in Government securities than in any other way. But will this situation last? Ought we to depend on it in the future? I think everyone of us feels that the answer to that question is no.

As with all war business, from the strictly business standpoint and without reference to patriotic will and attitude, "there is a catch to it." With war business, the catch is war taxes plus renegotiation. With banks,

the catch is war taxes plus what? Without going into all the ways in which an end may be put to the present situation with regard to our federal portfolios, we can be very sure that, for the long future, it is not safe to depend on them. In fact, it is positively and absolutely dangerous to depend on them for our main source of income. And the dangers are of a sort which will not merely affect the future of individual banks, but the whole future of the institution of private banking. What we have to do is to make sure that after the period of war finance is past, private initiative again becomes the main-stay of the business of banking.

#### Post-War Planning

A second respect in which banking is like other kinds of private business is that it is in need of post-war planning. To drop back into the banking business will not be as simple as it will be for some industries to convert back to their peacetime product. It is going to be necessary, in fact, for our institutions to give far more careful attention to the product they have for sale than was given in the past. Our salable product consists of loans and discounts in the fields of building, agriculture, consumer credit, general business, and personal loans. Each of these requires study anew to make sure that the product we have to offer fits the post-war world.

On building loans, for instance, we may expect a favorable market with some new elements and devices coming into the picture as compared with the situation a generation ago. Of these, the most important is the F.H.A. loan, which is now pretty well established and which will probably continue. There are other types of loan possibilities which are not yet organized because the difficulties in the way of them have not been solved. One of these unsolved problems is that of slum clearance. We cannot admit

the desirability or the possibility of continuing far into the post-war world the low-grade dwelling conditions of the crowded areas in our cities. The banks have a responsibility for assisting in the solution of the problem of wiping out these sore spots. In so doing, they will assist in arresting the vicious circle of urban decay in which loss of real estate earning power leads to higher taxes which, in turn, leads to further lowered earning power and further higher taxes, ad infinitum. The banking fraternity cannot stand aside from this serious problem.

Then there is the revival of business and personal loans, particularly in the smaller denominations. Skill in estimating credit, courage in implementing skill, and organization for profitably carrying out small loans will have to be continued and brought to bear on our post-war business.

There is going to be an increased market for agricultural loans, whether for production, for building, or for additional equipment. These situations vary somewhat in the special group areas, such as potatoes, apples, cranberries, or tobacco on the one hand, and general farming and dairy farming on the other. But in all, the rapid improvements in farm equipment open up a field for conditional sales which must be surveyed and seized.

There is a corresponding opportunity in the consumer credit field, for automobiles, household machinery, furniture, etc. Why should the major returns on such financing go to the big credit companies, with many banks participating only to the extent of buying the paper of these credit companies at a very low rate of return? How many of us are thoroughly familiar with the chattel mortgage laws of our own State so that we can safely and profitably participate in this type of business?

Post-War Markets

These are our products. What are our markets? What are the prospect among our clients?

One of the immediate prospects is that of the termination loans. We should be prepared to advise on procedure for these in the case of any of our clients with war business subject to termination. The advice may be tactfully given well in advance of V-E Day.

There is one point which personally I feel cannot be emphasized too strongly. There is no question in my mind but that the contracting offices and officers are going to be overwhelmed with work on and shortly after V-E Day. "We haven't seen anything yet." It will take weeks and months for most contracts to get through the mill. The contracting agencies are foreseeing this to the limit of their powers in training hundreds of contract termination officers; all that can be done by them to shorten the period will be done. But at the best, it is going to be a long and difficult process, and for most contractors, some degree of loan accommodation will be required. This possibility should be discussed and prepared for in advance.

There is another service which the contracting officers are prepared to render to contractors which should be thoroughly understood and which the banks may well discuss with their clients. This is the plan worked out originally with the Studebaker Corporation whereby most of the questions which remain to be settled after termination can be settled in advance, leaving little more than inventory quantities to be filled in when the time of termination comes. I understand that this process of speeding settlement is available from all the services. It will be the part of wisdom to examine these possibilities carefully and quickly.

Why not also discuss now, as many of you are doing, the question of adequacy of working capital after termination as well as for termination? A long look ahead among the businesses of your region will be appreciated in the long run by your clients.

The work of the A.B.A. in setting up machinery for providing this post-war capital in situations where the ordinary banking procedures are difficult is worthy of the highest commendation. It should be a matter of satisfaction to all of us that the first fully organized effort to carry out these plans originated in a New England State, Connecticut, and is ready for action. It is undertakings of this sort that are the heart and soul of the effort to maintain private banking as the principal financial support of business, agriculture, and employment in this country.

As to agricultural loans, we are in a sense in competition with Governmentally sponsored bodies. That competition, however, need not be ill-natured or destructive. Competition in rendering service never can be or will be. The federal institutions and the private institutions as they are now set up can both operate in the field and find their own proper areas of activity; but so far as the private banks are concerned, those areas of activity will depend on a more careful approach to the subject of agricultural credit than we have been giving in the last few years.

A remarkable development in this connection has been taking place in New York State under a committee of the New York Federal Reserve Bank in cooperation with Mr. Krippel, the National Bank Examiner of New York, formerly located in this Reserve District; Dr. Hart of the Cornell Agricultural School; and Mr. Cleveland, President of the Courtland National Bank. The credit file that this committee has developed was explained

and discussed by the Agricultural Committee of our Federal Reserve Bank yesterday, and it is my feeling that means must be found to make the procedures they have developed common knowledge to the banks of New England, particularly the country banks.

#### Manpower

Manpower is another problem which remains the same for banks and industry. Fortunately for both, we have reason to believe that conditions in this respect will ease up within the next few months. Now is the time to plan. Execution may be slowed up by lack of manpower, but there should be no reason for delays on this score in carrying out plans which are carefully made in the present.

The manpower situation is difficult for the city banks, but there seem to be many cases in which the country banks have been particularly hit. Some means must be found to make the banking business, even in the country, interesting to intelligent young men. That can be done if country banks work out intelligent programs.

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Summing up our whole situation, we may say that the preservation of the private banking system depends on its rendering, in all its procedures and in all its lines of organization, the maximum service to the public, on whose support and satisfaction the future of any institution depends in this democratic country. By concentrating on valuable service, for which the recipient will be glad to pay, our banks can look forward to another generation of profitable private operation.