NEWS RELEASE

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D. C. 20429

Telephone: 393-8400
Br. 221

FOR RELEASE TO NEWS MEDIA
TUESDAY P.M., APRIL 21, 1964 PR-32-64 (4-20-64)

Hailing the assistance rendered college students by the savings banks of New York State, supported by a State guarantee program, Joseph W. Barr, Chairman of the Federal Deposit Insurance Corporation, today said the New York experience might well become the pattern for national action.

Making his first major address before a savings bank audience, Mr. Barr cited the educational programs of that group, the Savings Banks' Association of New York State, including not only student loans but work with school children for thrift education. The student loans for college level work are guaranteed by the New York Higher Education Assistance Corporation.

He told his audience at the 71st annual meeting of SBANYS at the Commodore Hotel in New York that "it has become increasingly apparent that a college education today is a capital asset of great value." He added "now, I believe, there is a consensus in the Congress and the Administration that Federal support should be directed towards a loan guarantee arrangement for a college education."

Mr. Barr told the luncheon gathering that "Savings banking is essentially a social institution that performs a major economic function." He warned the group against departing from their historical emphasis on the promotion of personal thrift, declaring "savings banks should be steadfast in their determination to serve individuals first and foremost as thrift institutions."

The new Chairman of the Corporation which insures deposits in nine-tenths of the nation's banks declared he was impressed by "the intimate connection between the mutual savings banks and the main current of economic development in the State of New York, both as an historical and a contemporary fact."

As one example, Mr. Barr said that "the importance of savings banks in New York as a major factor in the stimulation of building construction over the post-war period is indicated by the sharp upward trend in mortgage holdings by these institutions. I note that the total dollar volume of mortgages on property in New York held by the mutual savings banks is equal to the combined holdings of the commercial banks, savings and loan associations, and the insurance companies."

Continuing, he stated that "by the end of 1963 these holdings aggregated the impressive total of $11.8 billion. This demonstration by the savings banks of their continued ability to perform a vital economic function--to help individuals accumulate surplus funds and then to channel those funds into an area currently attractive for capital investment--is truly impressive."

After a discussion of the investment options which savings banks should consider and the need for "flexibility in asset management as a guiding principle", Mr. Barr said he felt savings banks should resist any move in the "direction of multi-purpose institutions offering general banking services to the public."

He concluded by declaring that "there are general principles in the field of savings banking that seem to demand steadfast support. The system of savings banks that has developed in New York illustrates the very definite social purposes served by these institutions. Essentially, these are banks designed to help savers realize the objectives of their thrift. As depositors, these savers have the right to the return of their funds without delays. To conform with this principle of operation it is necessary for the savings banks to maintain an adequate degree of liquidity by sufficient investments in assets readily convertible into cash and of high quality so that no losses will be sustained. Finally, the element of mutuality in the institution of savings banking deserves protection. These principles seem to have been tested by time and the flow of events in your own State. I would be personally reluctant to see them abandoned."

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D. C. 20429

FOR RELEASE TO NEWS MEDIA
TUESDAY P.M., APRIL 21, 1964

OBSERVATIONS ON SAVINGS BANKING IN NEW YORK

Address of

JOSEPH W. BARR, CHAIRMAN

FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D. C.

at the

71st ANNUAL MEETING

of the

SAVINGS BANKS ASSOCIATION OF NEW YORK STATE

at the

Hotel Commodore
New York, New York

Tuesday, April 21, 1964

OBSERVATIONS ON SAVINGS BANKING IN NEW YORK

The late Speaker, Sam Rayburn, had a favorite admonition to every new Congressman . . . "No politician was ever defeated by a speech he did not make." Over the years I have become more and more impressed with Mr. Sam's philosophy. There is, heaven knows, enough speech making being performed in this nation at this moment to drown us all in a torrent of words. I am becoming increasingly reluctant to swell the chorus.

Speech making, however, has one useful aspect. Unless the speaker is willing to deliver himself to the tender mercies of a ghost writer, he is forced into a certain amount of mental effort. I accepted your invitation today because I knew that I would be forced to sit down and learn something about your industry.

I can cheerfully admit that my qualifications as a regulator of the mutual savings banks of this State would seem to add up to about zero. This position does not dismay me, and I hope that it does not frighten you. I served as a member of Congress, and if one were to measure the intellectual qualification for the post against the responsibilities involved, I suppose that no one would qualify. I served as an Assistant to the Secretary of the Treasury, and the same argument could be made here. But surely your problems are no more difficult than the problems of balance of payments, debt management, taxes, fiscal policy, and monetary policy that I have been attempting to work through in the Congress and in the Treasury for the past five years. You can also take solace in the fact that I am approaching my new responsibilities with an open mind.

What I want to do today is to share with you what I have discovered about your banks and to make a few observations about your current posture. Perhaps we can all learn something in the process.

Most impressive, to me, is the intimate connection between the mutual savings banks and the main current of economic development in the State of New York. This has been true historically and it certainly is a contemporary fact. Savings banking is viable in nature; it is not merely a creature of the past existing by virtue of social inertia.

I think that the efforts of an outstanding New Yorker in the early decades of the 19th Century--Dewitt Clinton--vividly illustrate the interdependence of mutual savings banking and economic growth. Because he was a man of vision Clinton perceived the economic advantages that would stem from the successful completion of the Erie Canal. As a State Senator in 1816 he introduced the necessary legislation to bring about this great achievement.

By the standards of that day the construction of the Erie Canal required a great aggregation of capital, and Clinton recognized that the economic growth of the State stimulated by the great improvement of transportation would create many other outlets for capital. This suggested the need for institutionalizing the accumulation of savings by individuals.

So it is not surprising to discover Clinton's name was associated with the legislation that founded savings banking in New York. People were flooding into the State from across the seas. Here in this favored part of America they found an opportunity to apply their energies and to take advantage of a favorable economic climate. Soon they were able to produce a surplus over and above their immediate requirements. Mutual savings banks made it possible for individuals to preserve these surpluses. Essentially the savings banks were both benevolent and philanthropic in character; they were designed to encourage thrift and to make it possible for thrifty individuals to realize their objectives.

From the pages of history it is possible to trace the patterns of economic growth as the Erie Canal brought prosperity to communities along the waterway. Savings banks were established at that time in many of these communities that since have grown to become great American cities.

Equally impressive as the early history of savings banking in New York has been the more recent development of these institutions in the period since the end of World War II. The forward thrust in building construction in this period has been an outstanding feature of economic growth. Construction statistics for the State of New York merely confirm the facts apparent to the ordinary observer.

The importance of savings banks in New York as a major factor in the stimulation of building construction over the post-war period is indicated by the sharp upward trend in mortgage holdings by these institutions. I note that the total dollar volume of mortgages on property in New York held by the mutual savings banks is equal to the combined holdings of the commercial banks, savings and loan associations, and the insurance companies. By the end of 1963 these holdings aggregated the impressive total of $11.8 billion. This demonstration by the savings banks of their continued ability to perform a vital economic function--to help individuals accumulate surplus funds and then to channel these funds into an area currently attractive for capital investment--is truly impressive.

I see other evidence that the savings banks in New York are alive to the needs of the 1960's. Of interest to me is the fact that the savings banks are active in encouraging thrift among school children. This is a logical development for thrift institutions; they can play an important part in developing habits of thrift. Figures suggest that over a million school children in the State of New York participate in this program.

By this participation not only do children in their early years learn the importance of savings but they also learn of the importance of the bank as the institution with which to deal on money matters for their future, including most specifically their education.

It has become increasingly apparent that a college education today is a capital asset of great value. In the past there was quite a bit of reluctance to go into debt for a college education. I have even heard it argued that if a young lady were to go into debt for her college education she may be married with a mortgage on her back, or what might facetiously be termed "a reverse dowry." In my opinion this attitude is changing. Your own State of New York recognizes that if young people with ability and intelligence are to receive the educational advantages that they deserve, then the State must be prepared to assist by guaranteeing a loan for their education.

The Congress of the United States is currently wrestling with this problem. As you all know, we have a veritable throng of young men and women who will be entering our institutions of higher learning in ever increasing numbers, starting this year. They are a result of the very heavy birth rate of the post-war years. The Congress has attempted to work out tax devices to assist the financing of an educational program for these youths without much success. Now, I believe, there is a consensus in the Congress and the Administration that Federal support should be directed towards a loan guarantee arrangement for a college education.

This rather new departure from established principles seems to me to be perfectly appropriate. If I were evaluating credit risks, I would rate a loan on a man's education superior to a loan on his house. I hasten to add, this is a purely personal opinion, but I would also add that recent financial history seems to support this thesis. This is an area where your institutions can make a contribution of especial significance. You have started with young people at the elementary level, and it is logical that you continue this association through the college undergraduate and even the graduate years. Your own experience in New York State may be helpful in bringing the advantages of the student loan program to young people who live in other parts of the country.

Many other aspects of savings banking in New York shows that your institutions are alive and vital and very much a part of the current scene. I think, however, that I have mentioned enough to make the point: savings banking is essentially a social institution that performs a major economic function. I am told that today savings banking is tempted by many proposals to depart from its historical and primary area of activity namely, personal thrift. It seems to me that there is only one appropriate response to these temptations. The savings banks should be steadfast in their determination to serve individuals first and foremost as thrift institutions. They should propagandize the spirit of thrift among people and they should adhere to policy that would protect savers against loss of funds or delay in repayment when the depositors need their money.

Because mutual savings banks are thrift institutions which historically have been oriented to serve the needs of small savers they are obliged in fact to meet the demands of their depositors without taking advantage of any legal right to delay performance. It would seem that mutual savings banks can meet this obligation only by maintaining an adequate degree of liquidity in the asset structure, and high qualitative standards for individual items. Experience has also shown that at times mutual savings banks may be obliged to borrow upon the security of their assets when there is pressure to meet the claims of depositors. Accordingly, this borrowing power is a resource to be husbanded for times of emergency; it should not be used merely to augment income.

I have discovered that savings banks in New York have an enviable record of performance in meeting the claims of their depositors. This is probably the reason that savings banks in this State overshadow all other thrift institutions. Your own Savings Bank Trust has contributed to this record by meeting liquidity requirements when necessary. The strength and the versatility of this institution is truly impressive.

I see another aspect of mutual savings banking that appears to be quite important. Because these banks are dedicated to the preservation of the funds accumulated by thrifty individuals, they have always recognized more than one option in selecting an investment outlet for their funds. Though the banks have played an important part in the development of building construction over the years since the end of World War II, as a matter of fact they are not chained to this area of investments. At other times in their long history they have extended large amounts of credit to private enterprise and the government through the purchase of bonds. They have committed substantial amounts of their resources to the obligations of corporate enterprise, the railroads, and other public utilities. During the war years they served both the best interest of their customers and the nation by investing heavily in the obligations of the United States. Thus, they have played an important part in facilitating economic development wherever the main current of growth may have been, and also in serving the public interest.

This element of flexibility in the asset management of the mutual savings banks, as I see it, is extremely important. It would be a mistake for the savings banks to look upon mortgage credit as the only area of investment available as an outlet for funds even though it happens to be dominant at the moment. There have been times prior to the recent period when the mutual savings banks had rather substantial amounts invested in mortgage credit to support building activities. These periods have been followed by others, during which time such commitments dried up and the banks turned to other areas of investment opportunity. Flexibility in asset management then is another guiding principle that governs the operations of mutual savings banks.

The word "bank" appears in the title of nearly all of your institutions. I find this to be very important indeed. My lawyers tell me that the statutes governing financial institutions generally limit the use of the word and impose special obligations upon institutions that so identify themselves. Typically, the word contemplates a special relationship between the customer who is a depositor and the institution accepting his funds. A bank has an obligation to manage its resources so that each depositor can have his claim satisfied. That is, he may withdraw his funds in accordance with the contractual maturity date which may be upon demand. This imposes a liquidity constraint on a bank that is absent in the case of other financial institutions. Too much emphasis cannot be placed upon this important principle in savings banking: the saver is a depositor who is entitled to receive payment of his funds promptly in accordance with the terms of his contract.

Here and there, I see evidence that savings banks are being encouraged to move in the direction of multi-purpose institutions offering general banking services to the public. Perhaps the temptation to engage in a general banking business is based upon a recognized need for commercial banking services in a specific situation. But, in most instances, I am inclined to believe that savings banks are misjudging the facts; their real sphere of activity is in the field of thrift. Moreover, if a savings bank strays too far afield from the major function as a mutual thrift institution, it may very well find itself subjected to all the burdens of a commercial bank, including a high tax rate.

Your system of savings banks in New York is comprised of mutual institutions and my experience with the Treasury emphasizes the importance of preserving that status. As mutual institutions, the savings banks have very real tax advantages. Without these tax benefits it would be much more difficult to provide savers with the services they have come to expect from these institutions. In my opinion, any departure by a savings bank from the role of the mutual thrift institution deserves very careful thought and consideration.

Now to sum up, there are general principles in the field of savings banking that seem to demand steadfast support. The system of savings banks that has developed in New York illustrates the very definite social purposes served by these institutions. Essentially, these are banks designed to help savers realize the objectives of their thrift. As depositors, these savers have the right to the return of their funds without delays. To conform with this principle of operation it is necessary for the savings banks to maintain an adequate degree of liquidity by sufficient investments in assets readily convertible into cash and of high quality so that no losses will be sustained. Finally, the element of mutuality in the institution of savings banking deserves protection. These principles seem to have been tested by time and the flow of events in your own State. I would be personally reluctant to see them abandoned.