NEWS RELEASE

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D. C. 20429

Telephone: 393-8400
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FOR RELEASE TO A. M. PAPERS, SATURDAY, AUGUST 15, 1964

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Proposed legislation requiring notification of change of control of banks to supervisory agencies will provide an orderly tool against a problem which is essentially "peripheral" in nature, according to Joseph W. Barr, chairman of the Federal Deposit Insurance Corporation.

Addressing the commencement exercises at the NABAC School at the University of Wisconsin in Madison, Wisconsin, Mr. Barr said the FDIC proposal for such legislation was not based on any assumption that a deep and pernicious evil has become widespread in the banking industry. "Rather," he said, "I think that the proposal will improve the effectiveness of the Corporation in dealing with those problems which are essentially peripheral in nature."

The legislative proposal was made by FDIC following the closing of seven banks in a 15-month span. Mr. Barr explained that each closing was preceded by a change in the control of the bank involved.

Mr. Barr cited the general stability and longevity of bank managements, and the stability of banks in general. Where there are changes in management, he said, it would be inappropriate for banks to advertise this fact extensively, as some industries do. "Banking is a relationship of trust and confidence with customers," he declared. "No good purpose may be served and actual harm could be the result if every change in policy or management was heralded with wide public acclaim. This could be quite unsettling to the stability of the entire banking structure."

At the same time, Mr. Barr said, there is a need for machinery "which

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would bring to the attention of the banking authorities notice of changes in control promptly when they occur." For that reason, he pointed out, FDIC has proposed legislation now before Congress requiring reports to the Federal banking authorities when control changes hands. "This seems to be the best way for banks to discharge their responsibility for accounting to the public," Mr. Barr declared.

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FOR RELEASE TO A. M. PAPERS,
SATURDAY, AUGUST 15, 1964:

BANK ACCOUNTABILITY TO THE PUBLIC

Address of

JOSEPH W. BARR, CHAIRMAN

FEDERAL DEPOSIT INSURANCE CORPORATION

at the

COMMENCEMENT EXERCISES

of the

NABAC SCHOOL
(Association for Bank Audit Control and Operation)

at the

University of Wisconsin

Madison, Wisconsin

Friday, August 14, 1964, at 7:00 P.M.

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BANK ACCOUNTABILITY TO THE PUBLIC

Virtually every one of the 13,500-odd banks covered by Federal deposit insurance is a soundly operated institution with a substantial amount of stability in management. This conclusion is supported by our intimate knowledge of the history of these banks as well as our analysis of the current situation. The Corporation's own staff of examiners has been visiting 7,000 of these banks regularly for upwards of thirty years. About these banks we have detailed knowledge. But in addition we also have a very substantial amount of information that has been compiled by the other Federal and State banking authorities regarding the insured banks that we do not examine -- namely, those chartered by the Comptroller of the Currency and the State chartered banks that are members of the Federal Reserve System. Furthermore, it is true that each State chartering agency has knowledge of its banks -- in some instances the knowledge has been accumulated over a span of several generations.

The record supports the generally accepted view that almost all banks observe consistent policies in their business activities year in and year out. Each bank tends to carve out a niche for itself in the financial community and to provide a type of service that satisfies the needs of its selected clientele. Some of these banks are small or highly specialized; others are giants that endeavor to serve just about every type of customer over a great geographical area. If there is one common characteristic in banking it is the element of stability in the nature and quality of public service.

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In addition to the stability in services rendered to the public the members of the banking community also evidence a relatively high degree of stability in the management function. As a matter of fact, the individuals or groups in a dominant position tend to remain with little change over comparatively long periods. This includes the executive staff and the directors who play a dominant role in guiding the institution in bank operations.

Because the management is made up of human beings, there is of course a force of attrition constantly at work in the banks. Human beings grow old and pass from the scene in time and when they do so their places are taken by newcomers. It is remarkable, I think, that management can enjoy in the aggregate as large an element of stability in the banking community as it does. The banks take on certain basic characteristics and these patterns of activity persist even though the members of the managerial group in fact change.

One of the purposes of bank examination is to keep the banking agencies as instrumentalities of the public informed regarding changes that occur from time to time in business policy and in management. By and large I think that the bank examining authorities, including the Federal Deposit Insurance Corporation, have been quite successful in following the trends in policy standards and management criteria for individual banks. This has been accomplished by defining these terms with reasonable precision and detecting changes when they occur. Much of the documentation in our files relates to these matters.

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Nevertheless, in this changing world it is inevitable that banking policy and management control will change from time to time. This raises a basic question: Who should exercise the stewardship in detecting the fact that changes have ocurred and in taking appropriate action? Given time, it is obvious that the public and the business community will become aware of these changes in the course of day to day transactions. But the fact of change is itself one that should be handled with considerable discretion. Banking is a relationship of trust and confidence with customers. No good purpose may be served and actual harm could be the result if every change in policy or management was heralded with wide public acclaim. This could be quite unsettling to the stability of the entire banking structure.

Some types of business can take advantage of a change of management notice. But I am not at all sure that the financial community would be well served if whenever there was a change in the composition of the management group of a bank the notice was bruited about in some noisy fashion. Large signs, for example, announcing that the business now is "under new management" scarcely would be fitting. Certainly this would not be conducive to a feeling of confidence in the financial structure of the business community. But the appropriate public authority should know when a change occurs and this change should be analyzed and appraised on a systematic basis.

I am mindful of the fact that confidence in banks and in the banking community is always in delicate balance. Likewise, I know that changes in policy and management often are indicative of future developments that may be of utmost concern to customers and to the entire fabric of banking. For these reasons I have become concerned with the need for machinery which would bring

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to the attention of the banking authorities notice of changes in control promptly when they occur. This I view as a necessary extension to the examination work already performed by the banking authorities. Accordingly, I have proposed Federal legislation which provides that notification of changes in the control or management of insured banks be made to the Federal banking authorities. This seems to be the best way for banks to discharge their responsibility for accounting to the public.

Over the years the Federal Deposit Insurance Corporation has been confronted with comparatively few very serious troubles when a new management supplanted an old one. However, a trend or pattern has developed over the past 15 months which is the source of my current concern and the reason that I have asked for remedial legislation. In each of the seven bank failures that have occurred since May of 1963, there had been a recent change in management followed swiftly by a deterioration in the bank's assets. For those of you who are interested in the details of these failures, you will find them spelled out in an appendix which has been distributed to your seats.

I am sure that you are all familiar with the old saying that "one swallow does not make a summer." Nevertheless, thirty days ago my colleague, Director Randall, and I were faced with a series of bank failures that followed a common pattern. This fact posed the question: Did the frequency of recurrence indicate the need for a specific remedy? The fourth failure this year in Belleview, Missouri, triggered our request for Congressional action and, strangely enough, a fifth failure in precisely the same pattern occurred a week later in Covelo, California.

There is no reason to be an alarmist in dealing with banks, nor for that

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matter with any segment of the financial community. In this area clear thinking and good judgment should always prevail over clamor and noisy confusion. Because I feel strongly that orderly methods are essential to furnish the public authorities with information regarding changes in the control or management of banks, I am recommending a procedure to accomplish this result. In so doing I am not acting on the assumption that a deep and pernicious evil has become widespread in our banking system. Rather, I think that the proposal will improve the effectiveness of the Corporation in dealing with those problems which are essentially peripheral in character. The proposed remedial legislation is in the nature of a desirable improvement in Federal banking agency machinery.

You gentlemen tonight are in the same position as the Congress of the United States, which now has this legislation under consideration. Copies of the bill have been furnished to you, and I shall be delighted to hear your arguments or to answer your questions.

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