NEWS RELEASE

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ADDRESS OF

ERLE COCKE, SR., CHAIRMAN

FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D. C.

at a luncheon given by

THE FIRST NEW HAVEN NATIONAL BANK
New Haven, Connecticut

Marking That Institution's One Hundredth Anniversary

JUNE 20, 1963

ONE HUNDRED YEARS OF BANKING --

AND THE FEDERAL DEPOSIT INSURANCE CORPORATION

It is an especial pleasure to be with you here this afternoon to mark the one hundredth anniversary of the First New Haven National Bank as a national bank -- the oldest in continuous operation in the United States -- because at the beginning of this week I helped observe another significant anniversary. The Federal Deposit Insurance Corporation last Sunday marked its thirtieth anniversary, at ceremonies which dedicated our new building in Washington.

There have been several landmarks in the development of the United States' great free banking structure, including the original establishment of independent banks back in the late 1700's, the formation of the national banking system, which created our present dual banking system, the formation of the Federal Reserve System, and the formation of the Federal Deposit Insurance Corporation. In all four of these great events our host, the First New Haven, played a part.

One of the predecessor banks of the First New Haven National came into existence as a state-chartered bank in 1792, and our host bank can thus trace its history back one hundred and seventy-one years. It is to be congratulated for this span of unbroken service to its community and the nation.

When the first of the three great shifts in the nation's banking structure occurred, creation of the national banking system, a group in New Haven were the first in the nation to apply for a national charter. They applied a short time after President Abraham Lincoln signed the National Currency Act on February 25, 1863.

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Federal officials asked them to defer to Jay Cooke, one of the nation's greatest financiers, who was of great help in financing the War Between the States for the nation, and the New Haven group patriotically agreed. Thus the first charter went to Mr. Cooke's bank in Philadelphia, which has since surrendered its charter, and the New Haven bank, predecessor to the bank which is our host today, secured Charter Number Two, on June 20, 1863.

The hundred years since the formation of the national banking system, the hundred years we are marking here today, mark the growth of a unique and serviceable dual banking system. But that growth was not without its problems, as you all know.

During the early period of the national banking system's creation many state chartered banks converted to national status, since issuance of money was reserved to national banks only by the National Currency Act.

This, however, led to surviving state banks seeking new ways to serve the public, including forms of deposit banking at that time totally new, and in the 1880's and 1890's the state system began to grow again.

Throughout that period, however, one problem continued to nag the economy. That was the problem of currency.

There wasn't enough currency in the monetary system, and it wasn't flexible. In a nutshell, national banks were the only organism permitted to issue currency and they were carefully restricted to a percentage of capital placed in the national banking system. This acted as a brake on currency expansion in times when funds were needed, leading in every period of expansion to a point where money became so scarce that problems developed. Many a run on a bank ran unchecked solely because there were no sources of currency and no mechanisms to

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move it from bank to bank when a heavy demand arose. Many a sound bank went under, because it could not raise sufficient cash, even though its loan portfolio was sound and would eventually be paid back.

The event that finally triggered a solution to this problem was the panic of 1907. That was essentially a money panic. It started with the failure of a brokerage firm in New York City, and the involvement of the Knickerbocker Trust Company with the failed firm. Perhaps, in today's banking system, the Knickerbocker Trust would have survived the blow, because it could have secured funds from other sources.

In 1907, however, it could not, and when a run developed, it eventually forced the bank to close, with resultant loss to thousands of depositors. Other banks failed as well, and the whole system was rocking when J. P. Morgan finally put his immense prestige to work and forced the solvent banks to form a pool of funds to support banks which were subject to runs. This finally halted the panic, but the panic had deeply worried the nation.

One result was the Aldrich-Vreeland Act, which in one section established the National Monetary Commission. It, the banking community, and finally Congress, gradually hammered out the concept of the Federal Reserve System, with its power to control the amount of money in supply and its equally important power to move funds as needed throughout the banking system.

The Federal Reserve, the new central bank, was created in 1913, and is marking its fiftieth anniversary this year.

There were still flaws in the banking system, however, not the least of which was the failure of the public to trust the system in times of stress -- sometimes with reason, because some bankers were not as prudent as perhaps they

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should have been. When banks failed it still, despite the Federal Reserve, wreaked havoc on a community.

This was proven all to dramatically in the early 1930's when the Great Depression hit the United States. The collapse was world-wide, starting in 1931 in Austria when a leading bank, the Credit-Anstalt of Vienna suspended payment, and the result in the United States was the failure of many banks, and the eventual "banking holiday" of 1933.

Out of that disaster came tighter controls on the banking system, in the form of restrictions on the activities banks could engage in, and in the form of tighter supervision. And, capping the banking system and adding a tremendous element of strength, out of that disaster came the Federal Deposit Insurance Corporation.

FDIC through its insurance of bank deposits did more than protect depositors. It gave the public a trust in their banks, and bankers greater confidence in themselves. Each of the three great changes in the banking system have helped to create the present firm, and unique, American banking structure. The dual banking system gave a diversity of approach which keeps the system flexible. The Federal Reserve strengthened the currency situation and gave the monetary system greater flexibility. And the Federal Deposit Insurance Corporation gave bankers freedom from fear of "runs" and gave the public greater trust in their banks.

What many of you may not know is that the first system of insurance of bank deposits was established on the state level in 1829, by New York State. Others were organized by Vermont, in 1831, Indiana in 1834, and Michigan in 1836. Some of these plans, notably the Indiana one, were highly successful and were

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discontinued in 1865 only when the Federal government taxed state bank notes out of existence.

The idea of a national insurance plan started in 1886. On January 11 of that year, Congressman W. T. Price of Wisconsin introduced a bill to form an insurance fund for national banks, backed by a duty on circulating national bank notes.

The first 22 bills on the subject applied to national banks only, but in 1906 Congressman A. J. Gronna, of North Dakota, introduced a bill which would apply to all national banks and applicant state banks.

Altogether there were 150 bills introduced in the United States Congress to establish some form of bank deposit insurance. The last of these, by Congressman H. B. Steagall of Alabama, became law on June 16, 1933, and represented a compromise between earlier bills introduced by Mr. Steagall and Senator Carter Glass of Virginia.

We are here today to mark the centennial of the dual banking system and to pay tribute also to the hundred years of the First New Haven National Bank.

It would be pleasant if we could look forward to the next one hundred years and see how the system will be doing then. None can peer so far into the future, but we can predict, I think, that the dual banking system will continue to serve the nation well.

Studies by the FDIC suggest that the nation's bank deposits will reach $450 billion by the end of 1971, based on a 4½ percent growth rate annually. And it seems likely that the nation's banking system will continue to offer new and improved services to the public, and that more and more of the public will turn to the banking system for aid in their financial matters.

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First New Haven is to be congratulated for decades of fine service to the public. It has been operated conservatively, has been civic-minded, and has met the credit needs of its trade area, and it has exemplified the highest traditions of loyalty to the dual banking system.

The bank, like the great system of which it is a part, has a continued existence, and will still be flourishing, we know, long after we are gone on. May its second century, and the second century of the dual banking system, be as useful and fruitful as the first has been.

In closing, I should also like to pay tribute to the several families whose dedication and service over the years have helped make First New Haven the great bank that it is. The excellent book by Rollin G. Osterweis, of Yale University, titled "Charter Number Two: The Centennial History of the First New Haven National Bank," outlines the years of service of such families as the Welch family, which supplied the first president, a second president, and several directors and officials, including our good friend G. Harold Welch, now a director; the Bradley family, which had three successive generations on the board; and the English family, which contributed no less than five directors over the years.

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