Montgomery, Alabama May 14, 1949

LADIES AND GENTLEMEN OF THE ALABAMA BANKERS ASSOCIATION:

It is a pleasure to be here with you and to bring you greetings from Chairman Harl and from Comptroller of the Currency Delano, the other member of our Board.

The subject of current banking problems is something I would like to dwell upon for just a few moments. Viewed as a whole, our banking system does not appear to be confronted by any serious problems. Of course, in this great economy of ours there are always potentialities which can rather suddenly change the course of affairs; but since 1933 banking in this nation has cleared its decks and now is in the soundest condition that it ever has been in its history. Nevertheless, we need to give our strict attention to keeping our banking system sound, clean, and efficient, so that never again will the confidence of our people in it be shaken.

Naturally there are always a number of individual cases which require attention, but those at the moment are not alarming. However, there are situations that exist in or affect significant segments of the banking system which command constructive attention, and I will touch upon some of them later.

In the past our banking system experienced intermittent flurries. They occurred in 1873, 1893, 1907, and one was experienced after the First World War which may have been minimized by the creation of the Federal Reserve System shortly before. The last to occur was the near collapse of the entire system in 1933. When the banking business resumed operation after the 1933 holiday, there were about 15,000 banks remaining of the approximately 31,000 which existed in 1929. The weaker units, of course, had been weeded out, but it was a terrific shock to the entire economy of the nation. The 1933 situation was precipitated by loss of the confidence of the people in the nation's banks. Undoubtedly it also was due in part to indiscriminate chartering of banks to which competition between State and Federal chartering authorities may have contributed.

The Federal Deposit Insurance Corporation has no chartering powers, being an insuring agency. If a National bank charter is desired, application must be made to the Comptroller of the Currency, while charters for State banks must be obtained from the respective state authorities. However, before a bank can become an insured institution, whether as a National bank, State Federal Reserve member bank, or insured nonmember State bank, there are several uniform factors which need to be considered and satisfactorily resolved, which act to regulate insurance risks and at the same time serve to minimize competitive chartering. We of the Federal Deposit Insurance Corporation are firm believers in the dual banking system. We believe that the salvation of this country economically, as it has been politically, is the balance of power--if you do not like one way, you can take the other.

The strength of the banking system was demonstrated by the rapid recovery which it made since 1933. Banks then resumed business with approximately $40 billions of deposits, which have risen to something over $150 billions. Of course, that tremendous rise in deposits came about because of the financing of World War II. The increase in business has been accompanied by greater responsibilities, to maintain a sound and secure banking system, to keep a sound economy and to assist in support of the public debt. Obviously, there must be no element of danger or fear in our national banking history again.

The Federal Deposit Insurance Corporation, as you know, was brought into being as a temporary fund in 1933, then as a permanent fund in 1935, for the purpose of restoring the confidence of people in the banking system of the nation. This Corporation was created to restore confidence that had been shaken and to maintain it by protecting individual depositors. The deposit insurance idea had been tried on various occasions previously by states, without success. Lack of sufficient foundation and too much vulnerability to local situations apparently were largely the reasons for failure. We believe that the Federal Deposit Insurance Corporation, with its national scope and support, has the proper foundation and that we can maintain the confidence of the people by continuing to function as we have in the past.

In a period of fifteen years the Federal Deposit Insurance Corporation has come to the aid of 407 banks, which involved a disbursement of $267 million. However, liquidation of the assets taken over from those banks has substantially repaid our advances to the point where our net loss discernible at present does not exceed $26 million. I believe that that cost is small compared with the confidence that is generated in the banks of the nation. You will be interested to know that we have never touched one dollar of the assessment money that your banks have paid in order to take losses suffered up to this time in meeting our responsibilities to depositors.

With respect to the 407 banks we have assisted in fifteen years, I should point out that they are less in number than the total that failed in any <u>one</u> of the ten years ending in 1933. We want to keep the record that way for we cannot afford ever to have another 1933. They say it can't happen here, but some things have happened that we thought could not have happened. England did not expect to nationalize their banking system but they have not stopped with that; they have nationalized their coal mines and their railroads.

However, I do not believe that we will be given to surrender of our right of thinking or of freedom of action or of individual enterprise.

We now are in the sixth year during which there has not been the loss of a dollar to a single depositor in any insured bank. The reason for that is this--there has been no receivership. We try to avoid receiverships and we have been able to do so for more than five years. I will explain that: if any insured bank goes into receivership we immediately pay up to $5,000 to each depositor and the payment of noninsured deposits must await and depend upon liquidation. But the law gives us sufficient latitude to underwrite the assumption of all of the deposits of a distressed insured bank by another insured bank, whereby we can lend upon or purchase the assets of a discontinuing bank which may be unacceptable to a bank assuming its deposit liability. In that way for the past five years we have been able to give full coverage, although that is not required by law.

As you know, the initial capital of the Federal Deposit Insurance Corporation was supplied by the United States Treasury and by the Federal Reserve Banks to the extent of $285 million. The Federal Deposit Insurance Corporation took the initiative to retire the capital investment of the Government, and under the provision of Public Law 363 we have repaid that entire capital to the Treasury and to the Reserve Banks. On August 30th of last year our Chairman, Mr. Harl, handed to Mr. John W. Snyder, Secretary of the Treasury, a check for some $12 million which represented the final retirement of our capital. So now the Federal Deposit Insurance Corporation
($1,200,000,000)
has a surplus of about $1,200,000,000 which consists entirely of assessments paid by insured banks and the interest we have received upon our investments.

It is interesting to note that we now insure some 93 million bank accounts, which have the protection of our surplus of about $1,200,000,000. The life insurance companies of our nation have some 76,000,000 life insurance policies outstanding against which they hold reserves aggregating $55,700,000,000.

I have said that our banking system is sound and apparently not confronted by any serious problems. However, there are some things that we need to watch, and watch carefully. Within the past year we have had to come to the rescue of depositors in several banks which were found in difficulty. In four out of five of the most recent, the trouble was caused by the dishonesty of employees. Almost a year ago a New Jersey bank was put out of business by the $657,000 defalcation of one of its officers, which amounted to nearly three times the capital structure. Within a few days we had arranged for another insured bank to take over its deposits, which, of course, necessitated a substantial advance by us. In another instance in Oklahoma a shortage in a small community strongly indicated that directors were not attending to their responsibilities or they would have been aware of the improper activities of the culprit.

These shortages which cause bank fatalities should be significant in showing the importance of carrying adequate fidelity coverage. As you undoubtedly know, the Federal Deposit Insurance Corporation for some time has been advocating adequate fidelity coverage, for which we have been variously criticized, even to the extent that some folks have accused us of working in collusion with surety companies. Undoubtedly you are aware that the American Bankers Association has developed a schedule of fidelity insurance which they think should be the minimum bankers should carry. It must be remembered that almost invariably when the Federal Deposit Insurance Corporation is called upon to pay depositors, the stockholder equity is eliminated. With that thought in mind, the responsibility of bank management and directors to stockholders to properly safeguard their equity against dishonesty within the bank itself cannot be overemphasized. While it is true that present deposit levels require substantially increased coverage, fidelity premiums have been so reduced that many times the coverage of a few years ago now can be had for the same or less cost.

To exemplify the fact that the blanket bond recommendations of today represent only the minimum to be considered, I wish to give you a few examples of loss experiences. In Ohio a few years ago a bank closed with a loss of $472,000 and its fidelity coverage was only $25,000. In an Indiana case the surety bond was only $15,000 while the loss was $70,000. In Iowa only $50,000 fidelity coverage was held by a bank which suffered a loss of $401,000. In the New Jersey case about which I spoke previously, the $200,000 blanket bond was only about 30% of the shortage. Here are a few others. An Oregon loss was $416,000; surety coverage was $15,000. In Pennsylvania only $50,000 of a $950,000 shortage was covered by a fidelity bond. In Virginia, a $600,000 loss was suffered of which only $100,000 was recovered under the fidelity bond. The one case in your state which I have noted is not so bad; $50,000 fidelity coverage was held against a shortage of $86,000. I have cited these figures in order to stress the responsibility of management to know people who work for their banks and to prevent those things from happening, and to have adequate protection for the depositors and stockholders if they do.

There are many things of which I might tell you, but for which I do not wish to take your time. I emphasize the responsibility of directors to stockholders. Another point worthy of comment is the relation of capital to resources, which has been changed by rapidly growing deposits. We believe in strong capital protection because if you have the capital funds you can absorb losses incurred in the regular course of business, without embarrassment to your banks.

Our banks for the most part have been conservative in the retention of earnings in the capital structure. I have some figures which indicate that 1948 corporation earnings were something like $21 billion, and that two-thirds of that has been retained in capital in one form or another.

I would like to tell you something of our interest in the education of banks, knowing that you have many active chapters of the American Institute of Banking. We take a keen interest in the educational program of the American Bankers Association. The Federal Deposit Insurance Corporation has 48 or 50 men enrolled for the graduate schools. I do not have the number that are enrolled in correspondence courses under the AIB, but our men are working to make themselves better prepared to examine your bank constructively, and to be of help to you.

One thing which hits my own State of Ohio, as well as most states, is that our state legislatures have been prone to neglect the importance of banking departments. The Superintendent of my own state is a political appointment at the pleasure of the governor and these terms sometimes are for two years, sometimes less, and sometimes longer. We feel that there should be more incentive to make the appointment a career for at least a number of years, because it takes a couple of years to become familiar with such responsibilities. Inadequate salaries are another thing. California pays their Superintendent of Banks $15,000 and New York pays $16,500, which I mention to show that some states are recognizing the need of obtaining able, high type men.

Recently I saw the inscription on the Archives Building in Washington.

It reads like this: "What is Past, is Prologue." The past which has given us what we have today, is but prologue to the things we are doing now. The things we do and say today are but prologue of the acts we will perform tomorrow and the contributions that we will make to our state and nation. We, today, are tomorrow's past. Let us give serious thought to the contribution we can make for the present. Let me emphasize once more that the contribution we make to our communities, our churches, our service clubs, our industries, and all of that, is most important; for they look to bankers for leadership, and if we do not provide that leadership and provide it properly, constructively, we can lose so much of what we worked for in the past.

Before closing let me pay tribute to the banks for sparing no efforts in aiding the financing and handling of the economy during World War II. We owe a great debt of gratitude to the loyalty and patriotism of the banks of this nation for their invaluable handling of bond sales and ration banking, to say nothing of the giving up of personnel to the armed forces, some of whom never returned.

I am told that the financing of this last war was the most economical of all time because less than one-tenth of 1% of the expense was paid by the government, thanks to the work performed by the banks.

Again let me say that it has been a great pleasure to have been with you. I assure you that if any time the Federal Deposit Insurance Corporation can be of service to you, just say the word, and we will do the best we can.

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