ADVANCE - FOR RELEASE A. M. PAPERS, THURSDAY, SEPTEMBER 25, 1952

FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C.
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ADDRESS OF HONORABLE H. EARL COOK, DIRECTOR, FEDERAL DEPOSIT INSURANCE CORPORATION, BEFORE THE ANNUAL CONVENTION OF THE NATIONAL ASSOCIATION OF SUPERVISORS OF STATE BANKS

BALTIMORE, MARYLAND — SEPTEMBER 25, 1952

"THE DYNAMICS OF BANK SUPERVISION"

President Alec, Members of the National Association of Supervisors of State Banks, and guests:

Again we gather to speak of many things. I have said often on these occasions how pleasant it is to meet with my many friends in the Association. That sense of pleasure has not dimmed throughout the many years I have attended these conventions, no matter in what capacity.

The opportunity to renew old friendships and the opportunity to make new friends are always inducements to attend. More importantly, though, I look forward each year to the wealth of experience, of constructive thought, and of vision which I am privileged here to share. Whatever success we have had in administering Federal Deposit Insurance Corporation can be credited in large part to the experience Chairman Harl and I have had as active members of this association and to the frank, willing, and helpful suggestions of the members of this group.

The drive, the vitality, and the success of the American system of independent, dual banking during the past decades is not only a tribute to the efforts which you all have exerted. It is also a challenge and a promise of greater things to come.

It is for this reason that I speak today on the subject, "The Dynamics of Bank Supervision".

I learned long ago that any discussion, to be intelligible, should be preceded by definitions of terms. Let me, therefore, review what the two nouns in my title mean to me and to Webster's unabridged dictionary.

"Dynamics", says the dictionary, means "The moving moral, as well as physical, forces of any kind, or the laws relating to them".

"Supervision", according to the same source, means "The direction and critical evaluation of instruction (and performance)".

Over and above our own vested interests in the profession, I am sure we all agree that there are good and valid reasons for the existence of bank supervision in the United States. Any business so vital to the public interest and so essential to the welfare of the Nation must, by its nature, be subject to a certain amount of regulation.

To begin with, there are laws to be enforced. Fortunately, this chore is performed in most of our banks with commendable diligence by the directors and officers. However, exceptions still do exist.

Secondly, there is always room for improvement of banking practices. The bankers associations, through their publications and studies and schools, are working constantly towards this end. Yet the representatives of supervisory agencies, able to compare the operations of one bank with procedures in hundreds of others, frequently are able to make suggestions for improvement far more concrete and far more practical than those to be gleaned from any textbook or seminar.

The basic purpose of bank supervision, of course, is protection of bank depositors. The safety and availability of deposits must be assured if the banks are to provide through adequate methods for the credit needs of the communities in which they are located and if they are to participate successfully in maintaining a stable financial structure nationally.

The mechanics of bank supervision are familiar to all of us. Decisions made by the supervisor fall into one or more of the three major categories of his authority. He charters banks and branches, he examines banks and branches, and he has authority to close banks and branches through receivership or otherwise.

By its nature, bank supervision is a complex occupation. The 13,700 insured banks have approximately 74,400 officers and more than 335,000 employees, most of whom are rugged individualists. These figures, of course, do not include directors of the banks who are not on the payroll. Together, the people who work in and with banks comprise a task force that, if we are to believe the dictionary's definition, tests severely the supervisors' powers of "direction and critical evaluation".

Having the national banking system and the several State banking systems operating side by side in harness occasionally raises points of friction. The variety of State laws governing banks and bank supervision creates some resentments in States whose legislatures are less lenient than others. To add to the complexity, different types of financial institutions within individual States are subject to varying degrees of regulation.

Even the tenure of office of bank supervisors in many States is still subject to political whim -- a condition which certainly should not exist in this uniquely important field of government activity and responsibility. We have been taught to believe that experience is the best teacher and that continuity of thought and steady adherence to principles of behavior are the best incentives to development of individuals as well as to the continued growth of the banking system we all are trying to serve and to help grow in strength and usefulness.

The job takes long-range planning, it requires the ability to adjust to unforeseen situations, it takes the strength of character to be firm when you are convinced you are right in your decision, and the humility to listen when there is a chance you may be wrong. Given the assurance of adequate compensation and the knowledge that they shall be able to carry out the plans they make for their announced tenure, supervisors will adequately meet their responsibilities.

There is one aspect of the position that may not be entirely a blessing, but that I enjoy. I have yet to meet a bank supervisor who is bored with his work. This awareness of the importance of his job, the opportunity to wonder each morning what the day will bring by way of challenge, and the satisfaction of meeting that challenge, if it arises, with solutions that contribute to the health of our banks and of our economy is a reward in itself and one to be cherished.

This, in part, is what I mean by "The Dynamics of Bank Supervision". The responsibilities of bank supervision change slowly, but increasingly. The mechanics and the nature of bank supervision, on the other hand, are subject to constant legal changes and to the variable sway of moral and economic forces.

During the early years of this century the State banking systems and the national banking system prospered side by side. There was little to disturb the equanimity of either banker or supervisor, aside from occasional bumps like that of 1907.

But then, in keeping with our willingness to grow, came the Federal Reserve System, which filled a very definite need. It simplified many of our financial operations, mobilized a major portion of our bank reserves, and otherwise altered our traditional way of doing the banking business. Complications were an inevitable outcome of this addition to our financial structure, but the gains have more than offset the added intricacies to which many of the banks became subject.

At any rate, the entry of the United States into the First World War found the banks able to do their share in its financing and in its successful conclusion.

The scope of our military effort was unprecedented, as were the respective developments of our industrial and agricultural potentials. It is unfortunate, but true, that the depression of the early '20's cast the bankers and their supervisors in the role of scapegoats.

The return to "normalcy" and to prosperity apparently was too rapid, for it took only until 1929 to find us again in economic difficulties. That was really an inferno -- one as violent and as rigorous as anything envisioned by Dante. It seemed to last for centuries, though its greatest fury burned out in comparatively few years.

With typical resilience, though, the bankers and bank supervisors bandaged their wounds, headed back up the hill, and pushed and dragged and dragged and pushed until they brought the American banking system to the heights where today the system surveys in serenity a Nation whose economy is basically sound and whose domestic horizon is practically cloudless.

Were any of us, either during the prosperous late '20's or the sad early '30's to envisage that the banking system of the United States would grow to its present stature, he would have been laughed into oblivion. Prophets who, as late as 1932 and as early as 1819, saw that losses through bank failures could be prevented were scoffed at and mocked. Yet we see today and rejoice in a banking system that has seen no receivership of an insured bank since 1944. Furthermore, that system can boast that the total of banks that have encountered difficulty since 1933 is less than the average number of bank failures for the years 1923 through 1933.

That, I maintain, is a record of safety and of security, of service and solvency which, two decades ago, would have seemed beyond our wildest dreams.

This success can be attributed to a number of factors. Part of it perhaps just happened, but most of it was wisely planned and competently executed. Of primary importance, of course, is the consistently high level of production, employment, and economic stability which this Nation has enjoyed since the Great Depression. It is doubtful, however, whether this level could have been reached or maintained without the hard-headed, hard-fisted actions of bankers and bank supervisors after they sat down and took inventory.

There had been too many banks chartered. That was clearly indicated by the cold fact that half of them were no longer in existence. So the decision wisely was made by most chartering authorities that banks should be permitted to open only when the need and the possibility of safe and profitable operation had been demonstrated clearly. "Spite" banks and banks operating under unsafe and incompetent management became largely things of the past.

Bank management sat back to take a good look at itself, decided that it could no longer afford complacency, found there were lots of things still to learn about proper methods of bank operations, set about learning them, and then put their findings into practice.

Supervisors, too, were jolted into humility and set about improving their own techniques. More importantly, they began counseling together, learning from one another, sharing experience and opinion, soliciting the opinion of Federal supervisory agencies and giving of their own experience to the representatives of those agencies. It was then that the National Association of Supervisors of State Banks became the vital, constructive force for the good of the bank depositor and of the banker that it is today.

Let us not underestimate the part in this record that has been played by our legislators, both in Congress and in State legislatures. The men who have served in elective capacities during the past two decades have not all been versed in the complexity of finance, but most of them have learned the vital importance of a sound financial system to the welfare of our economy and the Nation. As a consequence, the statutes governing banking today embody the best thought of a thinking group of men. These laws are designed in the light of experience to protect the American people against the abuses and the contingencies to which they once were vulnerable and, for the most part, they are flexible enough to meet contingencies which we may not yet have experienced. There may be individual legislators to whom I would not bow, but to the legislatures, I doff my hat and say, "Well done".

With the modesty expected from a man who is not only the junior member of its board of directors but also the representative on that board of the "currently minority party, I should like to claim a fair share of credit for the health of today's banking system for Federal Deposit Insurance Corporation.

The panicky fears of depositors in earlier years brought to ruin many banks that could soundly have weathered a local crisis. Those fears exist no longer, so there is no danger of panic. The Federal Deposit Insurance Corporation had much to do with that. For many years banks under one jurisdiction envied the privileges of those differently chartered and supervised. This condition is rapidly disappearing, and we believe that the unifying bond of Federal deposit insurance has had much to do with the growing unity of intent and purpose.

Most importantly, the State supervisors and the Federal agencies concerned with the welfare of the banks have come to know each other better, to share their problems and to join forces in the complicated task of keeping our dual system of independent unit banks working in harmony for the greatest good of the greatest number of our people. Petty differences have been forgotten, private piques are rare, and the banking system, in my opinion, never has seen such singleness of purpose nor such concerted action in the interest of bank depositors. That is the work to which we all have been assigned, and I am proud of the results our efforts are producing.

The record for the past two decades is outstanding and our pride is justifiable. However, the moral and economic forces continue to operate and we must plan to keep our banking system "dynamic".

I shall not burden you with a detailed discussion of the problems which should occupy the attention and test the talents of bank supervisors even during these times of tranquility. We have discussed them over and under so often that mere enumeration should suffice to refresh our memories.

If we are to maintain our record, continuing attention must be given to these factors affecting banking and bank supervision:

1. Maintaining adequate capital ratios, primarily through retention of earnings;
2. Awakening bank directors to the need for "capital protection";
3. Stirring interest within banks in better accounting and auditing systems;
4. Encouraging and enlarging educational programs for bankers and for supervisory staffs;
5. Informing the public, especially our youth, as to the vital role that banking plays in this Nation's welfare; and

6. Keeping the banking system both able and firmly resolved to occupy its intended and proper part in our over-all economic structure.

As supervisors, those gathered here have a grave responsibility to further all these aims. As supervisors, it behooves us, furthermore, to realize that our own relations must continue with a dynamic spirit, and that we must seek ever close harmony in our supervisory problems.

In these days of lightning-swift communication and overnight change, no unit of the banking system nor any segment of the banking system is or can be sufficient unto itself. It is a basic theorem of geometry, as I recall, that the whole is greater than any of its parts.

States' rights? Yes, but not squabbling among States!

Protection of the national interest? Yes, but not nationalization of the banking system!

Commercial banks, savings banks, building and loan associations existing side by side? Yes, but with equal treatment under law and clearly defined fields of activity.

State Supervisors, Federal Supervisors, and Federal Deposit Insurance Corporation all working on the same problems? Yes. But in harness, and all pulling in the same direction.

Let us aim at a sound and stable entity and make the necessary adjustments of its component parts amicable, reasonable, and designed for the health, the well-being and a long life of service and stability for the American banking system. We of Federal Deposit Insurance Corporation pledge to continue doing our part.

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