



FEDERAL DEPOSIT INSURANCE CORPORATION  
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"OUR MUTUAL RESPONSIBILITIES"

Address of

H. EARL COOK, CHAIRMAN

FEDERAL DEPOSIT INSURANCE CORPORATION

Before the

ANNUAL MEETING OF

THE NATIONAL ASSOCIATION OF SUPERVISORS OF STATE BANKS

Philadelphia, Pennsylvania

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President Black, fellow members of the Association and friends:

It is a genuine pleasure to meet again with my friends of the Association and to become acquainted with the several new State Supervisors who have recently become affiliated with this group. I shall always recall my years as an active member of the Association with a considerable amount of pleasure, not only in terms of friendly relationships, but also because of the nature of the work.

Serving as Superintendent of Banks for the State of Ohio was a pleasant and rewarding experience. One of the most satisfying aspects of my association during the past several years with Federal Deposit Insurance Corporation has been the opportunity to apply, on a different plane, the very same principles I learned as a banker and as a State Supervisor of Banking.

Each meeting of this Association with Federal supervisory authorities in my experience has debated about the topic "What is the scope of our respective authorities and responsibilities?".

Let me say at the outset that I shall use the term "supervisors" rather loosely during my remarks. Though Federal Deposit Insurance Corporation has some supervisory functions and powers, it is primarily an insuring agency, charged with protecting depositors of insured banks against loss of their funds.

In my opinion, our contacts and responsibilities as bank supervisors

point in three directions. First, our most intimate and most demanding relationship is with those banks which we insure and for which you and the Comptroller of the Currency have primary supervisory responsibility. Second, we supervisors have responsibilities to each other, and should maintain the closest liaison in order to harmonize our policies and actions, and so avert unnecessary hardship to the banks or confusion on their part. Finally, we have a great responsibility to the public, an obligation so extensive that it directly affects the welfare of every individual in this country.

In each of these areas we have to some extent been negligent, and it is to these neglected areas that I wish briefly to direct your attention.

#### 1. RELATIONS WITH BANKS

By far the major part of our regular activity as bank supervisors is devoted to the examination of banks. There is a popular misconception that the examiner and the banker each try desperately to outwit the other. That is not the case. There is cooperation, not obstruction; friendliness, not animosity. The functional results of examinations have progressed, too. Bankers have come to appreciate suggestions as well as to accept restraint. Yet I feel there is room for further improvement in this direction.

There is a temptation on the part of supervisors to refrain from making suggestions. We are cognizant of the sensibilities of bankers; we know that, for the most part, they welcome advice; yet we must remain free to criticize in the event something deserves criticism. This is a facet of our job which is becoming increasingly important in view of our opportunities and responsibilities.

All of us advocate an economic system based upon free enterprise. As

applied particularly to banking, we need to recognize what elements are required in order to give us a truly free and enterprising banking system. Banks sometimes refrain from trying innovations or taking other forward steps out of fear -- perhaps unwarranted fear -- that the move would be frowned upon by supervisory authorities. Supervisory timidity or indecision also can create a sense of frustration or repression and an atmosphere of confusion.

We should encourage those bank managements which have the vision and ingenuity to try something new. I am not saying that we should endorse every attempt at trail-blazing; somewhere between that alternative and official delays and discouragements there should be a progressive middle ground. The great well of experience and insight represented by the thousands of bank officers and employees should be tapped and made available to banks everywhere.

No group is in a better position to discover and foster the adoption of useful innovations than bank examiners. As they move from bank to bank, they constantly come across new ideas or improved ways of doing things. They are well equipped by training and vocation to analyze a situation or technique with disinterested professional skill. Without becoming advocates or disclosing professional secrets, bank examiners serve as missionaries in spreading information about promising experiments as well as tested principles and practices. The educational aspects of bank examination are of great importance and deserve development and encouragement.

It goes without saying that our first concern is to see to the soundness of the banks which we supervise. We must be careful, however, never to appraise soundness entirely upon practice or tradition. We should never assume that something is unsound because it is unprecedented or new, or forehandedly praise a practice because it proved successful in different circumstances.

Day after day bank examiners are confronted by situations which require a flexible and forward-looking interpretation of what we mean by "sound" banking. We ordinarily look askance at a bank with a low capital ratio. But is this factor offset by a capable management, a conscientious board of directors? And what about its assets -- are they sound, well-distributed as to type and maturity, currently paid and earning a fair return?

Another bank with a large proportion of consumer loans might cause an eyebrow to be raised. It helps in our evaluation if we recognize that consumer credit, in proper proportion, is becoming an increasingly significant factor in sustaining our economic system, and that many banks pioneering in this field have experienced fine results. Other banking innovations are familiar to all of us -- the combination of life insurance with a savings program, profit-sharing arrangements with bank employees, and the development of methods for servicing charge-account systems.

These and other plans and developments are representative of what enterprising bank management can do. Rather than mourn the eclipse of a vigorous and proud industry, or deplore the inability to attract new capital, we should explore more fully the forms and functions of banking suitable to a progressive economic system. As the poet James Russell Lowell has said,

"New occasions teach new duties,  
Time makes ancient good uncouth;  
They must upward still, and onward,  
Who would keep abreast of truth."

## 2. SUPERVISORY RELATIONSHIPS

The relation which we as supervisors maintain with banks has certain restrictive elements, sanctioned by statute and enforceable on pain of penalty. The relation which we bear to one another, on the other hand,

benefits only from good will and common concerns. Inter-supervisory relationships are grounded in fertile soil, but they thrive best with intensive cultivation.

The transcendent reality which shapes the relationship of State and Federal bank supervisory agencies is our mutual loyalty to the dual banking system. Strange as it may seem to us, the significance of the dual banking system as a manifestation of our political institutions is not generally appreciated. What is meant by dual banking? The elementary fact that it refers to the alternative chartering of banks by State or Federal authorities is unknown to many people. This lack of knowledge and concern constitutes a danger which we who live with it every day are apt to overlook. Seeing our exploratory efforts to work out cooperative arrangements whereby we might preserve the benefits of the dual banking system without succumbing to its contradictions, an impatient and unsympathetic public might reasonably conclude that nationalization would be a better answer. To guard against this eventuality should be our highest resolve.

We should miss no opportunity to explain to our lay friends what is meant by dual banking. We should make it our business to show how it represents in the banking sphere the constitutional division of powers and responsibilities between State and Federal authority contemplated by our founding fathers. We should demonstrate by concrete example the benefits to banking and to the Nation which derive from our dual banking system. Finally, we must be persistent and patient in our efforts to smooth out the kinks in the operation of the system, without in any way compromising the principles of dual banking.

While the banking system today is generally in good health, there

exist some weak spots which demand vigorous and prompt corrective action, even though the number of units and the total resources now involved are not large. It is a matter of concern, however, that so many of these cases have been permitted to drag along for too long without necessary corrective action.

Few malignancies ever heal themselves. Where therapy is indicated, therapy should be practiced; where therapy seems insufficient, surgery should be resorted to without delay. The collapse of the entire banking system during the early '30's was partly traceable to the failure of supervisors to take firm and immediate action against banks which showed continuing deterioration. This condition cannot be permitted to happen again.

The Federal Deposit Insurance Corporation strongly urges the respective State and Federal supervisory authorities to work vigorously and constantly both with and upon the weaker units under their jurisdiction. Where proper corrective action is not obtained, the unit should be eliminated. The Corporation offers its full support to such a program. Our resources are pledged to the protection of all insured depositors. We cannot in good faith and good conscience condone passive inaction by supervisors to festering situations, however rare and isolated they may be. Any one might shake that confidence in our banking system which is its keystone.

I think that supervisors may, on the whole, be proud of the degree of unanimity which they have reached on banking matters. There is no need to list the many, many instances of our common purposes and cooperative arrangements. At the same time, most of us are cognizant of problems on the supervisory level which still require conscientious attention. These

we should continue to work out in a quiet and reasoned atmosphere around the conference table.

I feel certain that many of the problems result from faulty communication. Here I have in mind both aspects of communication -- the failure to make one's self understood, and the physical neglect to inform interested agencies of actions contemplated or taken. It is not sufficient to remove the "confidential" label from memoranda and decisions. We should take positive steps to make sure that agencies which share responsibility with us know what we are doing, and understand the reasons for our actions.

To make our communication more effective, regular and frequent consultations should be developed. Perhaps it would be feasible to set up a schedule of regular meetings between the Federal supervisory agencies and officials of your Association. Such meetings could serve as a clearing-house for actions and information of mutual concern, and at the same time provide a forum for thrashing out problems as they arise. We at the Federal Deposit Insurance Corporation are much impressed by the value of consultations of this type. For some time we have been meeting annually with officials of many State Banking Associations, and our discussions have been most fruitful and effective. Your Executive Committee meets with us and the other Federal bank supervisory agencies, but not frequently enough. Regular consultations would, I believe, be productive of better understanding, and would facilitate the development of policies and practices essential to preservation of our dual banking system.

### 3. RELATIONS WITH THE PUBLIC

The contacts which we supervisors have with bankers and with each other are in the family. It is when we look beyond our professional interests



and consider the scope of our responsibility to the public, and to depositors especially, that we are most humbled. For in this trust which is ours rest the ambitions and aspirations of all of the Nation.

The Federal Deposit Insurance Corporation feels strongly its obligation to the more than 110,000,000 of insured bank depositors. Your fifty years of existence as an Association testifies to your early appreciation of the value of consultation and cooperation in the chartering and supervision of State banks. For my close friend and colleague, Mr. Gidney, who has the comparable responsibility for National banks, I can say from personal observation that he is highly aware of the responsibility of the Comptroller's office. Adjusting the money supply to the Nation's needs is the principal and important task of our good friends in the Federal Reserve System.

The cloud which enveloped the banking profession twenty years ago has all but disappeared in the wake of a resurgent confidence. Once again we look upon the banker as the epitome of community spirit. His respected figure is in the forefront of every community enterprise. He heads the drive for the Community Chest, as well as the committee to attract a new industrial plant; he teaches a class in Sunday School; he is the confidant of individuals with financial problems; he is adviser to farmers, industrialists and statesmen.

The high esteem in which bankers and banking are now held is a heritage earned by the great contribution they have made to our National life. It is, by this very token, a position which entails grave responsibilities. As banks assume an increasingly strategic role in our economy, the quality of their performance might well be improved by judicious supervisory coaching.

Our supervisory responsibilities naturally make us eager to have the public understand the banking function. It is not sufficient that bank tellers do their job competently, or that bank officers be able to recognize good collateral. Neither is it enough that bank customers know how to make use of the many bank facilities. Employees and customers alike should understand to a greater degree the mechanism of this engine which powers our economic system. They should ponder the technique and timing of letting up or pushing down on the accelerator, and consider the effects of different speeds upon the whole economy. The questioning of motives which accompanies new developments would be stilled by better understanding. There would be no need, for example, to explain that the recent advances in interest rates were a reflection of conditions characteristic of a free market. Here, as in other matters, we should assist the banks in promoting an accurate and broader understanding of their role.

This does not mean that we should become apologists for banks, abject in our abdication to their wishes. Our greatest responsibility is to the whole people, and not merely to a part or a group. We should not shirk from calling things as we see them, nor should we sacrifice long-term objectives to easy expediency. Nothing is to be gained by trimming our sails to the port of better banking. Only the best banking will do.

"A man's reach should exceed his grasp, or what's a heaven for?" Robert Browning observed a century ago. This is a creed that bank supervisors, no less than individuals everywhere, might well take to heart.

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