FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON 25

ADVANCE -- FOR RELEASE P.M. PAPERS

"SAFEGUARDING OUR FINANCIAL FUTURE"

Address Of
H. EARL COOK, CHAIRMAN

FEDERAL DEPOSIT INSURANCE CORPORATION

Before The

ANNUAL MEETING OF

THE SAVINGS BANKS ASSOCIATION OF NEW YORK

Aboard the Nieuw Amsterdam
En Route Havana, Cuba

Monday
October 19, 1953

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"SAFEGUARDING OUR FINANCIAL FUTURE"

It is a great pleasure to be with you here at this annual convention of the Savings Banks Association of New York. I am particularly happy because on this, the occasion of my first meeting with you, I have an opportunity to discuss a subject of mutual interest.

However, before I proceed with that discussion, it is fitting that I note that in 1953 we mark two anniversaries. It was just twenty years ago last month that the Federal Deposit Insurance Corporation began operations; it was ten years ago this July that the mutual savings banks of the Empire State unanimously became participants in Federal deposit insurance.

Within their respective contexts both events were significant. The establishment of Federal deposit insurance provided the banking system of the Nation with an essential bulwark. The entry of the New York mutual savings banks marked a significant step in the forward movement of all banks to provide this protection for their depositors.

As is often the case when important advances are made, there were murmurs and doubts in 1933 and in 1943. Today the murmurs have been stilled and the doubts allayed. Both the establishment of Federal deposit insurance and the entry of the New York mutual savings banks into that insurance system are now regarded as landmarks in the history of American

banking.

Today there are 219 mutual savings banks participating in Federal deposit insurance. Three-fifths of this number are in New York, and these New York banks hold four-fifths of total deposits in insured mutual savings banks.

It is interesting to observe the changes which have occurred during the periods marked by the respective anniversaries. The Federal Deposit Insurance Corporation has grown in financial strength so that today even after the capital stock has been retired and interest paid thereon, our deposit insurance fund exceeds $1.4 billion. This growth in financial strength has justified depositors' confidence in the Nation's banks as they have seen the Federal Deposit Insurance Corporation quickly disburse $330 million to aid depositors of 422 distressed banks.

In the ten years which have passed since they affiliated with Federal Deposit Insurance Corporation, the New York mutual savings banks have seen their deposits more than double from $6 billion to $14 billion. Along with this growth in size has come the steady increase in their strength, a development primarily attributable to the sound and wise management which you have provided.

When I chose "Safeguarding Our Financial Future" as the title of my talk, I had in mind the fact that this is a goal to which we at the Federal Deposit Insurance Corporation , all insured banks, and particularly you in the mutual savings banks are dedicated. It is at this point that the basic principles underlying our respective organizations come closest together -- our functions may differ but our motives are the same. We

all want to provide the depositor with the greatest degree of protection attainable.

It is interesting to note that New Yorkers were among the pioneers to press both for deposit insurance and for the establishment of mutual savings banks; it is significant that these movements in New York began within the same decade a century and a quarter ago.

It was in 1819 that the New York legislature acceded to the petition of the New York Society for the Prevention of Pauperism and granted a charter to the Bank for Savings, the third mutual savings bank in the Nation.

John Pintard and Thomas Eddy, leading New York merchants and philanthropists, had been pressing for the establishment of such a bank for a number of years and, in fact, had been thwarted in 1816 only because of the antagonism of a segment of the legislature to banks of any description.

The story of Pintard's and Eddy's struggle and eventual success in establishing New York's first mutual savings bank is, I am sure, familiar to all of you. However, you may not be aware of the fact that it was only ten years later in New York that deposit insurance had its beginning. In 1829 a bill providing for the establishment of an insurance fund -- they called it then a "Safety Fund" -- and the insurance of deposits and circulating notes became law in New York. This pioneering effort was followed by establishment of bank obligation insurance systems in five other States before the Civil War. Indeed, some of the basic principles of today's Federal deposit insurance were tried and tested at that time.

A few moments ago I suggested that there was some significance in

the fact that mutual savings banks and deposit insurance had their origins so close together in time. That is because both movements represented attempts by far-seeing individuals to strengthen the community's financial future. In the case of deposit insurance this took the form of guarding the community against the disastrous effects of bank failures; in the case of mutual savings banks the goal was to provide a safe and gainful depository for the surplus funds of the working man. Both objectives are still paramount and, in the final analysis, there is little difference between them.

Where there are mutual goals there are mutual responsibilities. How we meet these responsibilities will determine how well we safeguard our financial future. I do not propose here to cover the complete range of these responsibilities but there are a few upon which I should like to comment.

It is incumbent upon both bankers and supervisory officials to work vigorously toward correcting any situation which threatens the safety of depositors. Already great progress has been made in eliminating weak spots in the asset structure of banks; there must be no relaxation of our vigilance. One means to this end is to maintain a strong and sound program for making provision for future losses.

Another mutual responsibility of both bankers and supervisory officials is to strengthen and support in every possible way our free enterprise economic system. Traditionally the mutual savings banks have been leaders in this field through their unique ability to collect the savings of their respective communities and channel them into their most productive uses. The economic development of New York State, and other

States in which mutual savings banks have prospered, would have been much less rapid without this progressive influence.

The role of Federal deposit insurance in the movement to strengthen our unfettered economic system has been to insure that the intricate workings of that system are not disrupted by destruction of circulating medium caused by bank failures. In this instance the record is also good.

Since the establishment of Federal deposit insurance the Nation's depositors have lost less than 1/2 of 1 percent of their deposits. In other words, the circulating medium which formerly would have been destroyed as a consequence of these bank difficulties instead remained available to the various communities affected.

To safeguard our financial future, we still must plan ahead. Banking must always move forward and seek new ways of serving our economy. In this situation it is important that bank managements which have the vision and courage to explore each avenue leading to better service for their communities are not dissuaded from doing so by supervisory austerity. I do not, of course, claim that every change necessarily is an advance, but I do maintain that it is the mutual responsibility of bankers and supervisory officials to find the progressive middle ground.

The recent removal of dividend rate ceilings for mutual savings bank deposits by the Banking Board and the New York State Banking Department has made this trip a lively one. Bill Lyon will undoubtedly go into detail on this matter but my point is simply this: we of Federal Deposit Insurance Corporation accept this extension of the free enterprise principle because we are confident that the latitude it permits has been placed in wise and

prudent hands -- in your hands. The principle of depositor safety and the program of providing for future losses should not be lost sight of, even within this latitude.

I understand that the Banking Board took its action in order to return to the management and trustees of each bank the responsibility for determining the rate of return that should be paid to depositors.

There is one final responsibility which we at the Federal Deposit Insurance Corporation share with you -- that of seeing that depositor confidence in banks is kept high. The record of mutual savings banks in this respect is remarkable. You enjoy the confidence of the public because the public knows that the management of mutual savings banks generally is of high quality, and because it is aware of the excellent record compiled by mutual savings banks. We must never permit this confidence, so painstakingly built up over a century and a quarter, to be shaken.

The importance of depositor confidence is readily illustrated. Between 1925 and 1929, a five-year period of prosperity, no fewer than 3,420 banks, with one billion dollars of deposits, suspended. That is, more than eight times as many banks, holding twice the amount of deposits, failed during this prosperous five-year period than has been the case for the twenty years the Federal Deposit Insurance Corporation has been in operation.

Our twenty-year period includes years of depression, several minor downturns and the very sharp recession of 1937-38. Even if the period had been one of uninterrupted prosperity it is still more than four times the duration of the five years 1925-29. This indicates that the fact of

fewer bank failures cannot be disassociated from the existence of the Federal Deposit Insurance Corporation. We will never know how many bank runs have been avoided because depositors had confidence in the safety of their deposits -- they knew that the Corporation stood ready to come immediately to their assistance in the event of a bank failure.

There comes a time when even the first speaker on a program must stop and so it is in this case. I hope that I have succeeded in demonstrating that there are common principles governing the operations of our respective organizations and that we must work together if we are to be assured of a safe and prosperous financial future.

Thank you!

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