FEDERAL DEPOSIT INSURANCE CORPORATION
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ADVANCE -- FOR RELEASE A.M. PAPERS, TUESDAY, JULY 13, 1954

"THE MIRACLE OF AMERICAN BANKING"

ADDRESS OF HONORABLE H. EARL COOK, CHAIRMAN

FEDERAL DEPOSIT INSURANCE CORPORATION

BEFORE THE

EIGHTEENTH CAROLINAS BANKERS CONFERENCE

CHAPEL HILL, NORTH CAROLINA

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Mr. Chairman, Bankers of the Carolinas and friends:

I am proud to call Ohio my home State, but I am even more proud to call these United States of America my country. Circumstances have permitted me to visit most of the forty-eight states and to become acquainted with the splendid people who have formed from this geographic vastness a Nation diverse economically and politically, yet tightly woven at each seam.

The Carolinas hold a special fascination for me. In these States I have found coastal plains, productive foothills, and inspiring mountain fastnesses. From these historic areas have come many of those I am privileged to call friends. To mention only a few, I cite Senator Maybank, Lee Wiggins, B. M. Edwards of Columbia, and Bob and John Hanes. So many others have contributed to the growth of this area and to the welfare of our Nation that a complete roll-call would be impossible.

My theme this evening is one to which I have given much thought. After many years as a banker, and as an active participant in both State and national association activities, I believe I can speak from experience. My years as Superintendent of Banks of Ohio, as a member of the Board of Directors of Federal Deposit Insurance Corporation and as Chairman of that Board, also have brought to me the supervisory point of view.

Even after all these years of changing capacities in the stimulating business of banking and bank supervision, I am amazed by the miracle of our American system of banking. Where else would you find a financial structure like ours? Where else is there another so flexible and yet so stable? Where another so adaptable to the needs of a great Nation?

The unique nature of our banking system, I believe, is traceable in large part to the extraordinary aspects of our American civilization. Individual independence and freedom of choice are the cornerstones of our

Constitution. The dual system of free-enterprise banking is entirely in harmony with American tradition. The need for collective action for security and for progress is a part of our heritage -- one that is centuries old. From this need arose our Federal system of government and such jointly-sponsored financial measures as the Federal Reserve System and Federal Deposit Insurance Corporation.

Before this same forum, exactly seventeen years ago today, Mr. Leo Crowley, then Chairman of the Federal Deposit Insurance Corporation, said: "The success of deposit insurance will depend principally upon five things: First, the efficacy of new governmental powers of business and credit control; second, the efficacy of bank supervisory policies; third, the management of the Federal Deposit Insurance Corporation; fourth, the steadfastness of the public in time of crisis; and, fifth, the attitude and competence of bankers."

Federal Deposit Insurance Corporation has succeeded, and its success is a tribute to the care with which those five factors have been watched and nurtured by bankers and bank supervisors.

During the years since creation of the Federal Deposit Insurance Corporation we have had a steadily expanding economic growth. This has been reflected in the prosperity of our banking system.

Bank supervisory policies and practices during this period have taken the greatest forward strides in our history. Cooperation among Federal and State supervisory agencies has eliminated the misunderstandings that formerly existed in many areas. The approach to bank examination has become more professional and the scope of examinations has been enlarged to make them highly effective tools of supervision.

Bankers have increasingly realized the importance of the trusteeship they hold and have taken remarkably effective steps to improve the quality of bank management through careful personnel selection and through educational programs such as this, which are now annual features of bankers' associations throughout the Nation.

Bankers have come to recognize the imperative need for internal audit and control and have put effective steps into practice. The National Association of Bank Auditors and Comptrollers has done outstanding work in this field and recently announced a program designed to make expert advisory service available without cost to any interested bank, whether or not the bank is a member of the Association. If you have not investigated the possibilities for your banks of this generous offer, I recommend that you do so.

The managment of the Federal Deposit Insurance Corporation is proud to report that it practices what it preaches. The Corporation finances studies by its examining personnel in AIB courses and in advanced schools of banking. Officers of more than twenty-five bankers associations have visited Washington already this year to confer with us and with other Federal agencies, as well as with their delegations to Congress. It is our continuing purpose to learn what bankers are doing and thinking, and to serve as a clearing house for ideas of one group that might be helpful for the entire banking industry.

The fifth factor that Mr. Crowley mentioned as essential to the success of deposit insurance is the one I should like to stress particularly. The steadfastness of the depositing public -- its confidence in our banking institutions -- is to my mind the indispensable factor of banking stability. We have that confidence today. It is our sacred duty to do everything within our power to preserve it.

It is my sincere belief that the insurance of bank depositors is one of the prime sources of confidence. It has, I believe, been the predominant factor in the favorable experience of the past two decades; and through its examining activities, Federal deposit insurance has contributed further to the soundness of our banking structure. These are positive influences which we should be careful to preserve.

How this confidence in the Corporation has arisen, and what presently supports it, are matters of major importance. Confidence comes primarily from the Corporation's record in being able to meet its statutory responsibilities, and from the reasonable belief that the Fund will be sufficient to meet whatever future demands are made upon it.

The contribution of the Federal Deposit Insurance Fund to the maintenance of confidence in our entire banking system is generally recognized. How fast should the fund grow, and what is an appropriate objective for size are questions that have provoked pronounced differences of opinion.

From time to time proposals have been made to limit the growth of the deposit insurance fund. There are frequent suggestions to reduce further or to eliminate assessments paid by insured banks. Some presume that the insurance fund is large enough to take care of all foreseeable contingencies. In considering each such proposal its effect upon depositor confidence is of primary importance.

When Congress amended the Federal deposit insurance law in 1950, it made provision for crediting insured banks with 60 percent of their assessment, after making allowance for Corporation expenses and losses, and adding the remainder to the insurance fund. Under terms of this legislation, effective assessments have been less than half the statutory rate in each year since 1950.

Along with this reduction, however, it should be noted that the Congress recognized two important principles: the principle of bank payments for deposit insurance protection, and the necessity for growth in the fund.

The provision for bank assessment payments to the fund rests upon both need and principle. Growth of the fund depends materially upon financial participation by the insured banks. By such participation the banks provide a tangible expression of their faith in the system of deposit insurance. The deposit insurance assessment is a measure of bankers' confidence; it is evidence of their active support of the principle that deposit insurance is not dependent upon government appropriations.

Should bankers cease to contribute to the growth of the fund, the question of using Government funds could be raised again. Both the Corporation and the banks have been steadfast in their efforts to eliminate Government funds from the structure of deposit insurance. If the assessments paid by insured banks were to end, there would be some basis for the contention that the banks had reversed their intention to protect depositors by joint participation in the Fund without recourse to the Treasury.

To be sure, if the low loss experience of the past few years continues, the deposit insurance fund would show some growth without bank assessment payments, through the income on its investments. These, however, are principally in obligations of the Federal government. If the sole support of deposit insurance came indirectly from the general funds of the Federal government in the form of interest on the investment, critics could charge that banks had become passive beneficiaries of public benevolence. Insured banks would not want to lose the prerogatives and status which derive from their position as active participants in the fund. Think of what it would mean if the fund lost its character as a mutual enterprise of all insured banks. What then would be the basis for distinguishing the insured from the noninsured bank?

Aside from these matters of principle, the size of the deposit insurance fund is a matter of more significance than is apparent on the surface. At the end of 1953 the fund amounted to $1,450 million. This may seem like a large amount; yet relatively to the deposit liabilities of insured banks, it is no larger -- in fact, it is smaller -- than it was twenty years ago.

Expansion, not stagnation, is the outstanding characteristic of our economy. Depositors look with favor upon the growing deposit insurance fund. So long as it grows along with the rest of the economy, it stands as an important symbol of strength.

Yet it is more than a symbol. It is a resource readily available for the protection of insured depositors. So far, the total insurance losses incurred by the Corporation have totaled $28 million, a figure sometimes cited as evidence that the fund is sufficiently large to take care of all conceivable losses. Proud as we are of this fine record, it should be made clear that net losses are not an adequate measure of demands which might be placed upon the fund. We must maintain working capital adequate to meet any emergency.

The operation of deposit insurance requires outlays much greater than the ultimate net losses sustained in protecting depositors. When an insured bank gets into difficulty, and the Corporation advances funds to pay off depositors, it acquires assets that may require several years to liquidate. The ability to manage and to hold these assets until liquidation opportunities arise accounts in large part for our favorable loss experience. Up to now Corporation disbursements to protect depositors have been more than thirteen times as much as our realized losses.

Deposit liabilities of insured banks now stand at record totals. Recognizing the possibility that these banks in the future may require relatively more assistance, the fund is not overly large in relation to possible demands upon it. It is worth noting that there are fourteen insured banks, each with deposits larger than the Fund. Certainly, we do not expect trouble to originate with them; nor would the amount of working capital which we might be called upon to provide be more than a fraction of their total deposits. However, the situation does not justify ignoring our contingent liability.

Sometimes the need for a large fund, or indeed the need for any fund, is discounted because of the borrowing authority of the Corporation. We have authority to borrow up to $3 billion from the U.S. Treasury. However, this borrowing authority has always been looked upon only as a last resort. It must be apparent that at the moment we draw upon this line of credit, the character of deposit insurance would change. We would lose that independence which comes from our ability to operate on our own. Banks would become liable to charges of governmental subsidy. The act of borrowing to meet its obligations would indicate that the Corporation had not realized the hopes and intentions which led to its creation. In the minds of depositors it could be construed as a sign of weakness. The confidence of depositors which is the mainstay and support of our banking system, would suffer an incalculable shock.

Now, may I interject a note of caution. Thirty years ago there were roughly 30,000 banks in these United States. By 1934 this number had been reduced by more than half. During the past twenty years bankers have been cautious about expanding or beginning new banking enterprises. Supervisory authorities have been highly cautious and selective in chartering or approving additional banking facilities. Recently we have found in some areas a tendency to be over-optimistic about the chances for success for new banks and for new branches. There are indications, too, that supervisory authorities are becoming more liberal in granting authority for new facilities.

To survive, and to contribute to the health of the whole banking system, each bank must be a sound and profitable economic unit. Competition is certainly in the American tradition, but free-handed granting of bank charters can seriously endanger both existing banks and the public interest.

This amazing "Miracle of American Banking" is one of which we all can be proud. The phenomenal growth of the American economy would not have been possible without the flexibility of our banking system and the ingrained ability of our bankers to weigh carefully the advantages of risk-taking against the trustee responsibility for the funds they hold for depositors.

With education, with experience and with continued cooperation among bankers and supervisors, this miracle should become even more wondrous and our Nation an even more pleasant, a more prosperous and -- God willing -- a more peaceful land in which to live and raise families to perpetuate our heritage.

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