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"BANKING IN ILLINOIS"

ADDRESS OF

HON. H. EARL COOK
CHAIRMAN
FEDERAL DEPOSIT INSURANCE CORPORATION

BEFORE THE
MIDWINTER MEETING
ILLINOIS BANKERS ASSOCIATION

CHICAGO, ILLINOIS — FEBRUARY 17, 1955

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"BANKING IN ILLINOIS"

It is a pleasure to have been asked to talk at the mid-winter conference of the Illinois Bankers Association. To meet with old friends and discuss banking problems of mutual interest is an opportunity which I accept most happily.

Illinois banks constitute one of the Nation's great banking groups -- a group which is not only a cross-section of American banking but also is a reflection of the great progress which has been made since the inception of banking in this Nation. No better understanding of the magnitude of this achievement can be obtained than by pausing for a moment to consider Illinois' first banking system.

The year is 1821 and only about 55 thousand people reside in the new State, formed just three years before. The leading towns are Kaskaskia, Shawneetown, Edwardsville, Vandalia, Palmyra, and Brownsville. Chicago will not come into existence for another nine years and the whole of the northern portion of this new State of Illinois is still open for settlement.

The Illinois banking system in the year 1821 comprised just three banks: the State Bank of Illinois -- the first bank to be formed under the new constitution -- had just been established and was located at Vandalia; the Bank of Illinois at Shawneetown had already been in operation for a number of years under a territorial charter; the same was true of the Bank of Edwardsville. The combined assets of these three banks did not exceed $400,000 at that time. Almost all of their obligations were in the form of circulating notes rather than deposits. "Hard" money was so scarce that when one of the banks actually received a few silver dollars it put them on display in the lobby.

Much of the business done by these pioneer banks was related to the purchase and sale of government land. The fact that profits do not always walk with prudence is indicated by the fact that before the year was out the Bank of Edwardsville had failed. The Bank of Illinois at Shawneetown lasted only a few years longer. The State Bank had, of course, only commenced operations in 1821, but it, too, within a few years, was completely insolvent. The experience of this bank, entirely owned and operated by the

State, demonstrated the basic truth that American banking is best left to the care of private investors.

If we now move forward to the year 1955, it is clear that the great changes which have occurred in the State of Illinois itself are no more impressive than those which have taken place in its banking system. At the close of 1954 there was a total of 910 banks, more than 99 percent of which, I am proud to say, are participating in Federal deposit insurance. Their assets total approximately 16 billion dollars, ranking third in volume among the States.

Further testifying to the rank of Illinois banking is the fact that we are assembled today in one of the world's leading financial centers. Two Chicago banks are among the top ten in the country when measured by deposit size and no city, except New York, has more banks ranked among the first 300. Interestingly enough, there are six banks in Chicago, each of which has total assets in excess of the assets of all banks in the United States at the time when Illinois' system was new.

Size, of course, is not the only, or even the most important, measure of the worth of a banking system. Throughout the entire State of Illinois, in small villages, in towns and in moderate sized cities banks of all sizes daily service the credit requirements of agriculture and industry. Without the assistance of the Illinois banks, Illinois would certainly not be among the leading producing States of the Nation today.

A record which shows an increase in number of banks from three to more than 900, and in total assets of from about 400 thousand dollars to more than 16 billion dollars suggests a history which is worth retelling. Let me do this by briefly reviewing some of the major events which occurred between 1821 and 1955.

Although the first State Bank was eventually declared unconstitutional, in 1835 a second State Bank was established and several of the territorial banks were revived. At the beginning, the management of these banks was wholly in the hands of private investors but before long the State legislature began to infringe on management functions and disaster was once again the consequence. In 1843 banking in Illinois was in such condition that a contemporary observer could sadly, though properly, observe: "All the banks of Illinois have ceased to be. Their history is brief; their story is instructive; and the lesson will long be remembered."

I suppose the phase of Illinois banking which ended in 1843 is remembered today only because of the rather small part which Abraham Lincoln played in the events of the day. The collapse of the Illinois banking system was partially an outgrowth of the bitter political fight over banking which raged throughout the entire country in those years, but nowhere more strongly than in Illinois. Lincoln was a member of the party friendly to banking and, judging from a report submitted by him on the condition of the Illinois banks, was opposed to unwarranted interference by the legislature. However, he and his colleagues were opposed by a faction in the legislature which believed that banking per se was sinful and that any obstacle which could be raised to annoy the profession was justified.

One of the best-known episodes occurred during the depression which followed the Panic of 1837. All of the Nation's banks had suspended specie payments, the State Bank of Illinois along with the rest. The anti-bank party decided to manipulate matters so as to force the bank to resume redemption of its notes in specie long before banks in other States were planning to do so. The objective, of course, was to take the bank by surprise and bring about its failure, thus bringing upon Lincoln's party the onus of having supported a broken bank. We have it on the best authority that Lincoln, seeing that he could not prevent such reckless action from taking place, and finding himself unable to leave the legislative halls because of doors guarded by the opposition, leaped from a window along with several colleagues in an effort to destroy the quorum.

The maneuver failed and it is estimated that the bank's reserve was drawn down almost one-half million dollars -- a considerable sum for that date. The legislators were finally persuaded to change their minds -- particularly after the bank refused to cash their salary warrants and they found that merchants would only accept them at about 50 percent of their face value. Nevertheless, the incident contributed to the failure of the bank several years later.

Following the events just described there was no organized, chartered banking in Illinois until 1851, when a banking act -- made possible by the adoption of a new constitution some years earlier -- was passed. Modeled on the famous Free Banking Act of New York it permitted individuals to associate for the purpose of banking subject to certain minimum requirements and operating regulations.

As many of you no doubt know, there were difficulties encountered in the formation of banks under this law, which was not all that it should have been. Nevertheless, when the Panic of 1857 struck, to be followed by a severe depression, only six of the 54 banks operating in Illinois were forced to close. In five of these banks the noteholders, the principal creditors of banks at that time, were fully reimbursed.

In 1863 national banking was introduced partly as a consequence of the financial requirements of the Federal government during the war between the States. Acceptance of the national banking system was slow but it is interesting to observe that the first report of the Comptroller of the Currency, in 1863, showed that Illinois had seven of the 134 national banks. Only in four States were more national banks organized during that first year. By 1864, when the number of national banks had grown to 584, there were 38 national banks in Illinois, again more than in most other States.

There was thus started, in Illinois as in the entire country, our present system of dual banking. Great progress was made both in bank management techniques and in bank supervision. However there was the ever-present problem of bank failure; a problem whose magnitude and tragic consequences we tend to forget.

In the ten years prior to adoption of Federal deposit insurance (that is from 1924 through 1933) almost one thousand commercial banks in Illinois suspended. These banks held deposits of more than one-half billion dollars. Bad as this record appears, it was merely symptomatic of what was happening in the entire country.

We of the Federal Deposit Insurance Corporation are naturally proud to have played a part in solving this problem but let me hasten to add that we do not claim the major share of the credit. One of the basic functions of the Federal Deposit Insurance Corporation was to restore and then to maintain the confidence of the depositing public in the Nation's banks. Nevertheless, in the final analysis confidence can only be sustained where there is faith in the integrity and ability of the local banker. This faith generally has been accorded to the bankers of Illinois.

Since the Corporation began operations in 1934 there have been only 18 Illinois banks which required financial aid. This is an average of less than one bank per year, compared with approximately 100 bank failures per year during the decade prior to Federal deposit insurance. The record takes on added significance when it is considered that although Illinois is among the first few States in number of operating banks -- and therefore would be expected to have contributed more cases -- there are no fewer than nine States in which the Corporation has had to handle a larger number of cases. Finally, I might note that of the total disbursements made by the Federal Deposit Insurance Corporation since 1933 only abut three percent has been required for depositors of Illinois banks.

I hope that this brief survey does not indicate or reflect a spirit of complacency on our part. Neither does it reflect adequately the alertness of Illinois bankers today. Your work on revising the Illinois banking statute is an illustration. As you know, we have been afforded the opportunity and privilege of commenting on a draft of the proposed revision and it appears to us that it will aid us in carrying out our statutory responsibilities in Illinois in cooperation with your Auditor of Public Accounts. We were glad to observe that the proposed clarification and enlargement of the regulatory powers of the Auditor of Public Accounts during the period of his possession and control of a bank in financial difficulties will better enable the Corporation to work with him for the prompt protection of depositors.

However, we did recommend to your drafting committee that the Auditor's duties should be clarified to state clearly that upon taking possession of a bank he must close it. We also recommended that, after such closing, the Auditor be required within a reasonable period, such as ten days, to restore the bank to its board of directors, or to effect a purchase and assumption transaction, with or without the assistance of the Corporation, or to place the bank in liquidation. This would avoid any unreasonable delay in depositors' obtaining their funds. The assurance to depositors of the prompt availability of their funds is the essence of successful Federal deposit insurance.

And now what of the future? In his recent economic report to the Congress, President Eisenhower said: "Our country can within a decade increase its production from a current annual level of about 360 billion dollars to 500 billion or more, with the figures expressed in dollars of the same buying power." If he is correct -- and I feel strongly that this achievement is within our capabilities -- our banking system will necessarily expand at about the same rate. For Illinois banks it may well mean assets totaling more than 20 billion dollars within a decade. Certainly, it is within such a framework of progress that our plans must be laid.

Through your enlightened efforts Illinois banking will, I am confident, continue its fine progress and be equipped to meet whatever challenges the future may unfold.

Beyond a brief reminder that the Nationwide dual system of banking is a basic bulwark of our economy, I would not presume to suggest what operational changes are necessary or desirable in any jurisdiction. As problems vary among States, so do solutions.

Each State is best equipped to decide how the banks it charters can best serve the interest of that State and of the Nation. We at Federal Deposit Insurance Corporation believe that each of you shares our goal - a strong banking system with millions of depositors who are secure in the knowledge that the best in bank management is working together with Federal Deposit Insurance Corporation, to keep their deposits safe and promptly available.

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