Cramer.
April 19, 1950
Ga Bankers Asso
Savannah

SPEAKING FRANKLY

Some of you may recognize in the title of my address a steal from the title of a book written by an eminent son of your neighboring state of South Carolina. "Speaking Frankly" is the way friends speak to each other. It is the method by which they cement and consecrate their friendship. When a friend prefaces his remarks with the statement that he is going to speak frankly, he is ordinarily expected to say something that might give offense, something that he doesn't like to say but nevertheless regards as for his friends' good. So if I say anything of that character you will understand that it is as a friend among friends.

With all the attention given to such nation-wide issues as monetary and fiscal policies, bank holding company legislation, revision of the FDIC law, and reorganization of bank supervisory agencies, banking developments of a local character tend to be neglected. But that does not mean that they are unimportant. They are the raw material which prescribe the nature and the limits of the broader issues. Today I want to talk with you about a few features of the banking scene in Georgia, features whose details you know more intimately than I do. If we can look at these features from the viewpoint of how they compare with the banking situation in other states, we shall have a better idea of where we stand and where we are going.

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Like everyone else, we in the Federal Deposit Insurance Corporation are frequently confronted with unhappy alternatives. We're damned if we do, and we're damned if we don't. One of these typical situations has to do with the applications of banks for deposit insurance, particularly in borderline cases. Shall we strengthen a weak or potentially weak bank by granting insurance, and thereby assume added risks; or shall we refuse insurance, knowing that we might thereby kill the bank and the community's aspirations at one blow? Or, if the sponsors of the bank are not dissuaded by refusal of insurance, and open their doors anyhow, they operate with a handicap that might prove fatal to the bank, expensive to its depositors, and prejudicial to the good repute of the whole banking system.

How best to decide such questions presents a constant challenge. The problem is, of course, the more difficult because the standards we apply often differ from the chartering requirements of the different states. The frequent presumption that a bank is eligible for insurance because it has met the requirements for a state charter often places the FDIC in the unenviable role of obstructionist. We don't relish this role; nor do we expect all states, or even any one state, to conform to our standards in all respects. Nevertheless, we believe a greater degree of uniformity could be achieved without sacrificing any of the advantages that come from the prerogative to adapt local laws to local institutions.

A special committee of your national association has done a monumental work in this field. One of the members of your own Georgia Association, Mr. R. E. Gormley of the Georgia Savings Bank, was a

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member of the Special ABA Committee on Model State Banking Code. The proposed state banking code drafted by this Committee has aroused wide interest and stimulated the legislatures and banking authorities in various states to consider anew their banking statutes. Some of you are doubtless familiar with certain minor criticisms the FDIC has made of the proposed model code. In most part these have been intended, however, to clarify rather than qualify the code. We believe the model code to be a landmark in the effort to promote more uniform and higher standards of banking. And without presuming to advise on how it may be adapted to your own situation in Georgia, we commend it to your earnest attention.

The model code offers no guidance, however, on one of the basic problems of banking in your state. It refers only to banks duly chartered by state authorities. Thus it omits from its scope all reference to that unique Georgia institution - the private bank. I say "unique" not because Georgia is the only state to have private banks, for there are some in other states. However, Georgia is unique in that it is the only state which now permits the establishment of private banks; moreover, almost half of all private banks in the country are located in Georgia.

During the last ten years the number of private banks in Georgia has ranged between 50 and 60. Considerable change has occurred, of course, in the identity of these banks, as new ones open up and some in operation go out of existence. The picture did not change much during the war. But in the last five years, 1945 to 1949, 28 new private

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banks opened their doors for business in your state. This number was exactly offset by discontinuances of private banks, in one way or another, during the same period. During the period 19 private banks--some new and some old--took out a state charter to do a regular commercial banking business; six went into voluntary liquidation; and three failed. If one simply compares the figures of the number of private banks in operation in Georgia now and at the end of the war, he gets an impression of no change. Actually, however, beneath this surface stability, there has been an almost constant stir, much of it of a disturbing character.

During the last few years the Corporation has become involved to a considerable degree in the kaleidoscopic private bank picture. A well-defined pattern of evolution from private bank to insured bank has developed. The first step in the process, the opening of a private bank, requires little more than individual initiative. One can open a private bank as easy as he can open a grocery store. In fact, it's probably easier, for there are no outlays for inventory and other costs are similarly low. If the bank prospers it may, sooner or later, decide to apply for a charter to do a regular commercial banking business. At this point, or anytime after it receives its state charter, it may apply for deposit insurance. That is where we come into the picture.

We in the Corporation are, of course, happy to facilitate the evolution of a private bank into an insured bank, provided it can meet our standards. Right there, however, lies a major difficulty. The possession of a state charter does not always provide assurance that the bank is able to meet the standards prescribed by the FDIC law. Rather

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than go into the divergences here, however, my interest is in discovering the reason for them. One of the major reasons, in my opinion, is the debasing effect of the desire to make charter requirements attractive to private banks, in the hope of inducing them to take out a state charter.

Now there is no doubt that the carrot is better than the stick as a means of handling certain problems. But it is at least debatable whether it is the most effective way of dealing with the private bank situation in your state. As I said earlier, Georgia is the only state which now permits the opening of new private banks. No other state feels constrained to use inducements in the form of chartering concessions in order to secure supervision of all the banks operating within the state.

We must face the fact that the private bank is a 19th Century institution in a 20th Century economy. As holders and creators of part of the money supply they perform a distinctly public function. There is no reason why they should not be required to submit to the public supervision exercised over other segments of the banking system. You in the Georgia Bankers' Association have been alert to this situation, as evidenced by the Commission which you set up last summer, headed by John R. Hines. True to the GBA tradition of cooperation, I understand you have made good progress in your talks with representatives of the Private Bankers' Association of Georgia.

The effort to secure prohibition of the opening of new private banks would, if successful, eliminate the most risky aspects of the situation. You do not need to be told that many private banks, here as

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elsewhere, have a long and honorable history, and are capably managed by men of high esteem. Particularly in communities lacking other banking facilities they have performed a real service. We need not be fearful of these banks; nor need they be fearful of public supervision, if and when it comes. It is to prevent the abuses of unrestricted establishment of new private banks that remedial legislation should especially be directed.

Abuse of the banking privilege can easily lead to trouble. In confirmation of this, one small statistic speaks louder than a volume of argument. During the past year there were four bank failures in the whole United States; two of these, both of private banks, were in Georgia. The impact of these failures is much greater than its injury to the depositors who suffered. A bank failure communicates its perverse effects to other parts of the banking system, eroding the confidence so fundamental to the maintenance of a sound banking system.

Now I know that the significance of bank failures is a somewhat controverted matter. There are a few people who look upon failure as a normal and desirable method of ridding the banking system of unhealthy banks, a way of purging the system of its weak sisters.

We in the Corporation have a somewhat different view of the matter. We recognize that failures cannot always be avoided, and that conditions in individual banks may reach such a state that the filing of bankruptcy papers is the only feasible course. We are not happy, however, to see a bank fail. We do not expect sufficient compensating

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benefits in its cathartic effects upon the banking system as a whole. Our whole philosophy is one of prevention rather than of cure.

In ordinary businesses where entry is easy it is reasonable to expect a high rate of failure. But banking is not an ordinary business. It is so clothed with functions of a public character that no one questions its amenability to public regulation. The grant of authority to Banking Departments or supervisory agencies demands results in keeping with this public responsibility. The particular result demanded of the FDIC is the maximum protection of depositors, within the statutory limitations. To that end we have used our examining powers in the best manner we know how; we have been careful in admitting new banks to insurance; and we have stood ready to aid mergers of banks that get into difficulties. As a result of these practices, and of good business conditions, no insured bank has failed and no depositor in an insured bank has suffered a loss in the last six years. This record of solvency and stability is without parallel in the nation's history, and we in the Corporation are very proud of it. With your continued co-operation and the cooperation of the other supervisory agencies, State and National, this record will, we trust, be extended.

The whole question of the birth and failure of banks is closely related to the adequacy of banking facilities. Whether a particular area or state is over-banked is not, however, subject to statistical proof. We can figure out that Georgia has about one bank for every 10,000 persons, a ratio slightly below the average of neighboring states. We can look at the rate of profits on capital earned by Georgia banks, and see that it

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runs about the same as the average for banks in nearby states. But comparisons, however instructive, are not conclusive. The factors relevant to determining the adequacy of banks in a given area have endless ramifications. And the things to be considered in approving or disapproving an application for a bank charter extend even beyond the statutory requirements. We in the Corporation have certain standards to go by in considering applications for deposit insurance. Since standards are reflected to some extent in the action actually taken with regard to particular applications, you may be interested to know something about the new banks in Georgia whose applications for insurance have recently been approved.

During the last five years, 1945 to 1949, the Corporation has granted insurance to some 50 Georgia banks. About half of these were banks, or successors to banks, which had been in operation for some time. The other half were newly organized institutions; by that I mean entirely new banks which provide new or additional banking facilities in their particular community. It is with these new banks, where the problems encountered in obtaining deposit insurance are intensified, that we are presently concerned.

There are so many imponderables to consider. Is the proposed capital adequate to support the prospective deposit volume? What are the earning prospects of the bank? Do the prospective officers of the bank have sufficient experience and ability to operate a bank of the size and kind proposed? Will the bank fill a genuine local need, or will it merely divert business from an existing bank without providing worthwhile gains in convenience and service? Each of these questions

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could be explored with reference to the 26 new nonmember banks in Georgia which have become insured since 1945. But let us confine our attention to how these new banks fit into their respective communities.

About two-thirds of the new banks were opened in communities whose economic life rested upon agriculture. Cotton was the main farm crop in these areas, and lumbering was a leading activity in several of them; the increasing attention to peanuts, livestock and corn also was in evidence in some areas, and in others tobacco was an important cash crop. Of the other one-third of the banks, 7 were located in industrial areas and 2 in residential areas. The industrial areas were mostly centered around the larger cities, with textile and clothing manufacture, auto assembly, railroad shops, and canneries comprising the main activities.

Most of these new banks, as might be expected, were relatively small. Only six of them had initial capital and surplus in excess of $100,000; and none of them started with capital funds sufficient to warrant a million dollars in deposits. Nine of the banks had capital and surplus of less than $50,000 at the time they opened their doors.

Over one-half of the new banks were located in centers of between 2,000 and 10,000 population. Only two of the banks were in cities of over 10,000 while 10 of the banks were in towns of less than 1,000 population. It was in the latter communities that convenience of the local residents played such an important part in obtaining a new bank. In the larger cities the growth of the area and the attendant ability to support another bank were major factors. There were elements of local dissatisfaction with the services of the existing bank fostering the establishment

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of six of the new banks. In at least two cases the opportunity to realize high earnings appeared to be the over-riding purpose of the proponents of the new bank.

The importance given to providing local banking facilities is indicated by the fact that half of the new banks were located in towns that lacked banking facilities at the time. Only two of these communities, however - both growing surburbs of cities - had never had a local bank; and seven of them, at one time or another in the past, had had two or more banks. Thus it is evident that most of the recent increase in the number of banks is simply a replacement of banks that had gone out of existence; many of the communities obtaining new banks had been without local banking facilities for 15 to 20 years.

What has happened to banking in Georgia since the war reflects one phase of the rapid economic growth that is still going on in your state. The dawn of a new day in the economic life of the South is no longer mere platitude. It is a reality, taking the form of new agricultural crops and methods, new industries, and an awakened public spirit that not only invites but incites new ideas. Georgia has been in the forefront of these exciting developments.

The growth in the number of banks in the state has resulted in part from the economic stimulus of new opportunities for service and profit. The increase in bank deposits is not merely a manifestation of inflationary forces; it reflects the real growth of the economy. The average account in Georgia banks has doubled since 1941; and the number of accounts has increased by nearly one third. The wartime and early postwar growth in

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banking aggregates has stabilized at a high level. Private deposits in insured commercial banks in Georgia fell a nominal 3 percent during 1949, but still were over 3 times greater than 10 years ago. Last year loans in Georgia banks increased 5 percent, a greater rate of increase than experienced by the country as a whole. When the figures now being assembled by the Census takers are finally tabulated Georgians shall doubtless have further and varied confirmation of their economic growth and strength.

You bankers, accustomed to giving credit, can take a good bit of credit for these developments. You are one of the many vital links in the chain of business and industrial progress, providing a spark of civic leadership in addition to your regular financing activities. Your name has acquired a distinctive meaning in the common phrase "someone you can bank on," and I am sure you will continue to justify that compliment.

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