FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON

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ADDRESS OF HON. LEO T. CROWLEY, CHAIRMAN OF THE BOARD OF DIRECTORS OF THE FEDERAL DEPOSIT INSURANCE CORPORATION, BEFORE THE EXECUTIVE COUNCIL OF THE AMERICAN BANKERS ASSOCIATION, AT THEIR ANNUAL SPRING MEETING, AT THE ARLINGTON HOTEL, HOT SPRINGS, ARKANSAS, WEDNESDAY EVENING, APRIL 18, 1934.

Gentlemen, it is with great pleasure that I welcome this opportunity of addressing the Executive Council of the American Bankers Association at its annual spring meeting . . . etc.

With your permission I wish to discuss with you the highlights of the history of the Federal Deposit Insurance Corporation to date, to outline the present set-up of the Corporation, and to explain some of the plans which we have in mind for the future.

On March 31st there were 13,870 banks which were members of the Temporary Insurance Fund. This means, gentlemen, that 91% of all licensed banks in the country which are eligible for membership, had made application and were admitted to the Fund. It is true that national banks and state Federal Reserve member banks were required to join the Temporary Insurance Fund but this group of banks represents less than 45% by number of all the banks which have joined. In other words then 55%, or more than half of the members of the Temporary Insurance Fund on March 31st, were members because of their own voluntary application. There can be no question that temporary insurance as it now stands has been openly embraced by an overwhelming majority of the banks of the country, which means that insurance is welcomed by bankers, and I think we can safely conclude that on the whole this insurance of deposits which is now in force appeals to them from a sound business point of view. Insurance of deposits as it exists under the provisions of the act which establishes the Temporary

Insurance Fund of the F.D.I.C. has been accepted by the banking community of the country in an enthusiastic and wholehearted fashion. It is one of the outstanding constructive contributions of the present administration.

Total deposits in banks which are members of the Temporary Insurance Fund, exclusive of mutual savings banks, amounted to in excess of 31.7 billion dollars on December 30, 1933. Total deposit liability for all licensed banks in the United States, exclusive of mutual savings banks, amounted to in excess of 32.4 billion dollars, according to recent estimates. It would appear that 98% of the total deposits in all licensed banks operating in the United States are in banks which are members of the Temporary Insurance Fund. Banks which are members of the Temporary Fund, considered from the point of view of the number of institutions, as well as the deposit liability of those institutions, represent an overwhelming majority of all the licensed banks in the United States.

At the present time the Federal Deposit Insurance Corporation has insured 55.6 millions of accounts. Put another way, the number of accounts which are insured through the operation of the Temporary Fund are almost as great in number as half the population of this country.

Finally, the aggregate amount of the accounts which are insured represents 37½% of the total deposit liability of all the licensed banks at present operating in the United States.

These are staggering figures. I do not wish to burden you further with such dry statistics, but I cannot help from pointing out a few of these vital facts involved with the insurance of deposits. Let me bring two more studies to your attention.

On May 13, 1933 the Comptroller of the Currency requested an analysis of the accounts in all national and state federal reserve member banks. The results of this request were tabulated and published in the Federal Reserve Bulletin for last July. Among 5,500 banks it appeared that $2,500.00 would fully cover over 96% of the accounts. If the 5,500 banks chosen were representative of all the banks in the country, and they were not, it would lead one to believe that at the present time, through the operation of the Temporary Fund of the F.D.I.C., over 96% by number of all the accounts in the country are fully insured but, gentlemen, the 5,500 banks chosen were not representative, since they were all national and state member banks. We know from the statistics which we have gathered that on the whole the average state member bank is larger than the average national bank, and likewise the average national bank is larger than the average state non-member bank. We know too that the average account as a result is larger in state member and national banks than it is in state non-member banks. We are lead to the conclusion then that the study made last May is a conservative estimate of the actual situation. It is probably true that the number of accounts which are at present fully covered by insurance is greater than we would have occasion to believe as a result of the study made last May.

A recent preliminary study involving thirteen states in which the banks are classified as to the amount of total deposits shows the following enlightening facts: For banks with total deposits of less than $150,000.00, the ratio of the aggregate amount of the insured deposits to the total deposit liability is 78.34%. Taking the next size group, deposit liability of $150,000.00 to $500,000.00, the ratio of the aggregate of insured accounts to total deposit liability is 68.79%. Finally, taking the size group banks with total deposit liability of $500,000.00 to $1,000,000.00, the ratio of aggregate of insured accounts to total deposit liability is 64.49%. This means that in the small banks throughout the country the probable percentage of deposits which are covered by insurance to the total deposit liability is 67.38%. If the public funds deposited in banks in these first three size groups are eliminated, the percentage of the total deposit liability which is now insured would be very materially greater. We hope to complete this study in the very near future, at which time we will be able to determine the number of banks which fall within the various size groups, as well as the total number of depositors in such banks.

The Temporary Insurance Fund has been in operation since January 1, 1934. There are now 13,870 banks which are members of this Fund. Since January 1st not a single depositor has lost a penny in a bank which is a member of the Temporary Fund. It is well to give this a moment's thought. I do not believe it possible to point to any other period in the history of the United States when for over three and a half months not a single dollar of deposits has been lost amongst so large a group of banks as are represented by the members of the Temporary Insurance Fund. On the other hand, there have been during this same period approximately 60 suspensions of banks which were not members of the Fund. Such facts speak for themselves.

At this time let me say a word about the Corporation itself, the existence and operation of which have made possible the complete elimination of losses to depositors in banks which are members of the Temporary Insurance Fund. Up to the first of this year and for a short while thereafter, the staff of the Federal Deposit Insurance Corporation, under the able leadership of the Chairman of the Board, Walter Cummings, and J. F. T. O'Connor, Comptroller of the Currency, and E. G. Bennett, directors, was feverishly busy with the applications, examinations and finally the qualifications of the many banks which applied for membership. As you all know, the directors did an admirable job in completing in so short a time the work which faced the Corporation.

I want to call to your particular attention the assistance which was made possible through the wholehearted cooperation of Mr. Bennett. "E. G." Bennett was Chairman of the Board of Review. It was his group which passed upon the qualifications of every state nonmember bank making application for membership to the Temporary Fund. Reviewing in excess of 8,000 such applications in itself is a task the magnitude of which I am sure you will all appreciate. The responsibility which rested on the shoulders of the Board of Review, and particularly upon the Chairman of that committee, was considerable. Such responsibility could not, in my estimation, have been more ably discharged and we are fortunate that we were able to secure the services of Mr. Bennett for this tremendous job.

The F. D. I. C. built up a personnel practically over night to accomplish the tremendous task of examining and passing on all State nonmember banks which applied for membership in the Temporary Fund. As you know, they were successful in examining and reviewing by far the greatest proportion of the banks which had applied for membership prior to the first of the year. Just as soon as this job was completed the executives of the F. D. I. C. devoted their attention away from the outward problem toward the organization and personnel of the Corporation itself. The Board of Directors and their assistants have been busily engaged in establishing the organization throughout the country which will administer the affairs of the Corporation and which will conduct the regular examinations of all state banks other than members of the Federal Reserve System which are members of the Insurance Fund.

At the present time we have established 15 offices of the F. D. I. C. throughout the country. These offices have been placed under the direction of our Supervising Examiners. These men are responsible for the examination of the banks which are members of the Temporary Fund. Such examinations are sent to the main office of the Corporation at Washington currently as they are completed. Each Supervising Examiner is furnished with a sufficient number of assistants and other examiners to accomplish regular examinations of the banks within his territory which are members of the Fund.

As the examination reports are received at Washington they are assigned to appropriate Review Examiners for careful analysis and attention. There are at present time nine Review Examiners and each Review Examiner has been assigned a definite territory comprising a certain number of states. The Bank Examiner's reports are summarized and cards are made of the vital factors of each bank for ready reference and comparison purposes. Over the Review Examiners and over the Field Examiners is one Chief Examiner.

The business of the Corporation is divided between an Operations Committee and a Board of Review. The Operations Committee is concerned with the policies of the Corporation as it affects its direct operations and more particularly as it affects examinations, examiners and the personnel and other details of the Corporation. The Board of Review passes upon the applications of banks and determines the policies directly concerned in individual bank problems.

While up to the present we have had no need for a reorganization division, nevertheless we are engaged in organizing such a branch within the Corporation. This group will have charge of banks which have suspended, if and when that occurs. Under the law the Federal Deposit Insurance Corporation is required to organize a new national bank in place of any bank which suspends operations. This new national bank is to be managed by the F. D. I. C. and will take over the assets of the suspended bank. The reorganization division will be in charge of this phase of the Corporation's activities.

Tributary to the major functions of the Corporation as outlined above are such service divisions as the legal department, the auditing department and the other usual departments of a specialized nature which such a corporation requires.

At the head of the Corporation is the Chairman of the Board of Directors. The Board consists of three men, more than two of whom may not be of the same political party and one of whom shall be the Comptroller of the Currency. The Directors are assisted by Assistant Directors who are likewise members of the Operations Committee and the Board of Review.

The capital of the Corporation at the present time consists of three major items. In the first place, there is the subscription of the Secretary of the Treasury, amounting to 150 million dollars. In the second place, there is the subscription of the Federal Reserve Banks which amounts to a little less than 140 million dollars, half of which has been paid at this time, the balance remaining on call. Finally, there are the assessments of member banks, which on a recent date amounted to in excess of 39 million dollars. Here again the Corporation has called for one-half of the assessment due, the balance remaining on call.

I have discussed the organization and method of operation of the F.D.I.C. in some detail with you. I hasten now to a brief discussion of our major objectives and our plans for the future of the Corporation.

Our first concern has been with the capital structure of the various banks which are members of the Temporary Fund. We have analyzed state banks other than member banks which are members of the Temporary Insurance Fund and we understand that the Comptroller of the Currency and the Federal Reserve Board are doing likewise for the national and state member banks with a particular view to determining the deficiency, if any, in the capital structure of such banks. These analyses have been made comparing the ratio of the net sound capital in the subject banks to the total deposit liabilities. If the ratio of such capital to deposit liability is 10% or better we consider the bank a No. 1 bank, believing that 10% is a healthy ratio and that under such conditions there exists an ample cushion not only for the risk of the Corporation but for the interest of the depositors and stockholders as well. If, on the other hand, the ratio falls below this figure, we have classified the banks into three other rating groups. It is these three groups of banks which are engaging our particular attention because of the fact that the net sound capital in such banks is below what we consider a healthy ratio to the deposit liability of the bank. We have been and are making, therefore, and effort to repair this situation. We have urged banks in such condition to obtain either local contribution to capital or to make application for R. F. C. money for capital purposes. You will readily understand the importance of having an adequate capital cushion for the risk which the Federal Deposit Insurance Corporation is taking in the banks which become members of the Temporary Fund. It is not only for this reason, however, that we are making an effort to build up the capital structure of banks throughout the country. It is for the best interests of all customers of banks as well as the owners for their banks to have a strong capital position. It is to the best interest of all concerned that every effort be made to place the capital of banks in such a position that a healthy ratio of capital to deposits exists.

In many cases we have been unable to admit a bank to membership in the Fund because of an inadequate capital structure. In such cases we have been as helpful as possible in aiding these banks to obtain R. F. C. money for capital purposes, and where such action has been taken and where the R. F. C. has made a commitment it has been possible to admit the applicant bank. In short, gentlemen, we have made every effort to assure an adequate capital structure in all banks which become members of the F. D. I. C. Temporary Fund. We have done this so that the Corporation may start on a sound foundation. We have done this in an effort to make a constructive contribution to the banking structure of the country.

You see then that it has not been a desire of the Administration to have the Government invest in the capital of banks throughout the country. It has, on the contrary, been a necessity for the Government to do so in order to place the capital structure of many banks throughout the country in a more sound position.

One might even go so far as to say that the Government has invested in the capital of many banks against its will. It has done so, however, in the interest of the people, for the Administration has felt that confidence in banks would not return until the capital structure of such banks was adequate.

During a time of depression the major weaknesses in banking structures can only be patched. We should work toward a constructive program which will do more than surface-patch the illness which became so acute last March. We of the F. D. I. C. feel that the capital structure of banks is one of the most important fields for such constructive work. The assurance of a sound capital position is essential if a bank is to be able to withstand the strains which economic conditions in the future may develop.

Another important field in which much constructive work can be done embraces particularly the management of banks which in many cases is reflected by the earning capacity of an institution. The past decade has very forcibly developed the fact that many banks, because of lack of efficient management and because of the lack of proper earning capacity, are uneconomic units, the existence of which is not warranted. Your association has done much to educate bank executives in small communities. It is doubtless true that such education has had a marked effect in increasing the efficiency of operation of many small institutions. However, we are still faced with the fact that a great number of the banks now operating are of such size that the available business does not afford the employment of a competent management. It is such units to which we must devote our particular attention in an effort to place them on a sound business basis. The quality of management is a factor which can be directly affected by the activities of the American Bankers' Association, and it is urged that you continue with renewed vigor the good work which has been carried forward so ably under your leadership.

The service which the various state banking associations in connection with the American Bankers' Association have offered the banking community of the whole country is one of great value. May I point out the opportunity which is afforded your organization, as well as the many bankers of this country, through the examinations which the various federal agencies are making available to bank directors and officers? A report of a bank examination is an instrument by which the management may learn a great deal. Such examinations afford the opportunity for a periodic perspective of the operations of a bank which may not be apparent to those who are working with an individual bank's problems day in and day out. The proper use of such examinations in enabling the management to increase its efficiency has not as yet been clearly pointed out to bank executives. To my mind your efforts in this regard will augment very materially the constructive results in increasing the efficiency of management.

During the past decade we have witnessed the failure of over 10,000 banks. The existence of many of these banks was not justified from the point of view of potential earnings. To my mind an effort should be made to discourage the re-chartering of this large number of banks, which re-chartering is, unfortunately, going on apace at the very moment. Looking at this particular phase of the situation from every angle; from the point of view of depositors, as well as from that of the executives and owners of existing banks, it seems obvious that the re-establishment of uneconomic banks is a procedure which should, under no conditions, be encouraged. Your efforts to discourage the re-entrance in the banking field of many of the units which have failed, in my estimation will be a constructive activity.

We are glad to report that progress has been made toward the unification of the banking examination report form. After several months of work the chief examiners of the F. D. I. C., the Office of the Comptroller of the Currency, and the Federal Reserve System have developed a unified form of bank examination report which is to be used in the very near future by all examinations made by the respective examining divisions. This, you will readily recognize, is a definite step in the right direction, and is not only a definite contribution, but an encouraging one as well.

We are attempting to gain the cooperation of state examining authorities, and in many states at the present time we and the state bank supervising authorities are making joint examinations. We realize that many examinations of an individual bank by different supervising groups is costly. Not only is there the direct cost of the examination to be considered but there is as well the expense of delayed business and the wear and tear on the nerves of the executives and the personnel of the subject bank which increases the ultimate expense of such activity. We believe that the frequency and multiplicity of examinations may and should be curtailed. The number of visits to banks of those unpopular persons known as bank examiners must be reduced. We invite your cooperation in this effort.

I said earlier that greater use might well be made of reports of examinations by the directors and executives of individual banks. A follow-up system has merit which affords the directors and executives of a bank an opportunity to go over in detail the report of an examination with a representative of the Federal Deposit Insurance Corporation trained especially for such work. If, shortly after an examination is made, a representative of our Corporation could meet with the directors of the subject bank, and if together they could go over in detail the report of the examination, I believe that both the directors of the bank and the F. D. I. C. would be greatly benefited. Such a system will afford a closer connection between the Corporation and the insured bank which would doubtless react favorably for both groups.

It is important that we do not lose sight of the need for unification of the banking system. It is quite possible that because the vast majority of all the banks in the country are insured at the present time, the issue of unification of the banking system will be sidestepped. I need not dwell at this time upon the weaknesses which are inherent in the banking structure as it exists owing to the fact that banks are authorized by and operating under 49 different supervising authorities. While I for one do not advocate the immediate establishment of one supervising authority under which all banks are to operate, believing that such a system has weaknesses in that it places too much power in the hands of one individual, I do on the contrary urge for your further consideration the necessity of a greater unification than exists at the present time. The weaknesses which the present system of widely diversified bank supervision embrace are many.

Many of the supervising authorities at the present time are so near the scene of action, they cannot be wholly unaffected by political influences. Local supervising authorities are often unable to exercise the degree of control which is essential for the efficient conduct of the banks under such jurisdiction. Local supervising authorities often are not able to present the directors of a bank with an adequately strict and yet fair examination report. On the contrary, it has been the policy of the F. D. I. C. to make unprejudiced examinations. The primary purpose of such examinations is to present fairly the conditions which actually exist in the local institutions. Our examiners have done this believing that it will be for the utmost benefit of all concerned. Directors and executives should be accurately informed as to the situation in their bank so that they may face the conditions and so that through such a realization they may take those steps which will bring about a fundamental improvement.

On February 28, 1934 the Senate passed an act extending for one year the operation of the Temporary Insurance Fund. It is now before the House Banking and Currency Committee, and we are expecting it to be reported out any day. It is important for the House to make into law the bill as passed by the Senate. There are many reasons, a few of which are as follows:

In the first place approximately two-thirds of all the deposits in mutual savings banks are in banks which are members of the Temporary Insurance Fund. Such mutuals are members provisionally, however, and may remain so only as long as the Temporary Fund is in operation owing to the fact that before they may become members of the Permanent Fund it will be necessary for the various states which have chartered these mutuals to adopt certain enabling provisions in order that the mutuals may subscribe to stock in the F. D. I. C. Since there are over 8,000,000 accounts insured in mutual savings banks you may readily recognize the importance of protecting, through insurance, this large number of accounts.

Another reason for the extension of the Temporary Fund develops from the fact that it would be impossible to examine all the national and Federal Reserve member banks between now and July 1, 1934. According to the Permanent Act as it is now written, it will be necessary for the Comptroller of the Currency and the Federal Reserve banks to certify as to the solvency of all Federal Reserve member and national banks. Furthermore, it will be necessary to issue new certificates for all nonmember state banks. Such certificates obviously must be based upon current examinations. In view of the fact that it is impossible to make such re-examinations of all banks within the short period between now and July 1st, it is impractical to force into operation the permanent portion of the legislation.

Then again, there are technical details in connection with the liquidation of the Temporary Fund which unnecessarily complicate the situation, and the short time between now and July 1st hardly allows for adequate handling of this operation.

But more important than all of these reasons is the fact that we wish to study the situation further so that we may make recommendations for such changes in the permanent legislation as seem advisable before the inauguration of the Permanent

Fund. From the experience which we have had we are already aware of certain necessary changes which will have to be made in order to assure the success of the F. D. I. C.

It must be realized that at the time the permanent legislation was written there was no experience upon which to base the establishment of the Corporation. In creating such a vast enterprise as the F. D. I. C, it is humanly impossible to anticipate all of the practical details which may be embraced. On the whole the framers of the legislation did an unusually good job, It was inconceivable that they should have an understanding of some of the details which developed in the practical operation of the insurance idea.

I have mentioned the fact that we have already become aware of certain changes, which, if made, will make the Corporation more successful. Let me elaborate upon what I believe some of these alterations to be.

In the first place it will probably be unnecessary to protect the large depositors to the extent implied in the legislation as it now exists. After all, the depositor with from 10 to 50 thousand dollars and over in his account is an individual who is well able to care for himself. Deposit insurance is designed for the small depositors. The small depositor must be assured the absolute protection of his deposit. The hardships which the recent untoward economic conditions have developed have been felt most acutely by that large group of people whose right it is to have absolute protection for those hard earned dollars which are placed to their credit for the so called "rainy day". It is only just that the government should guarantee this minimum protection, Those who question the constructive aspects of a program whereby a minimum amount of hard earned savings of half the population of the country is absolutely insured fail to comprehend the most fundamental aspects of American society. The insurance of such savings which it is the right of every man to enjoy is essentially a government function. Just as the

Constitution offers every man the protection of law and order, so should the government insure the protection of the deposits of the masses.

As the law concerning both the Temporary and the Permanent Funds now exists the Federal Deposit Insurance Corporation is sorely lacking in the power of supervision of the banks which are insured. At the present time the Federal Deposit Insurance Corporation is obliged to insure all banks provided they can show sufficient assets to meet deposit liability. In other words, the law describes solvency only and says nothing about capital, management or any of the other important factors determining the degree of risk involved. The Corporation, then, is obliged to insure all solvent banks and at the same time is given no power of supervision which it may exercise over such banks in order to minimize the risk factor. Let me elaborate on this further.

At the present time the Federal Deposit Insurance Corporation is given the power of examination only with no power to correct dangerous existing situations. Practically, the Corporation's agents have met with little opposition in endeavoring to overcome such conditions which greatly weaken a particular bank's situation. The Corporation has enjoyed the wholehearted cooperation not only of bank directors but of state supervising authorities as well. However, in order for the Corporation's Insurance Fund to be well managed and in order for the remaining banks which are members of the Fund to enjoy that degree of security which they expect to gain through membership in the Fund, it will be necessary for the Corporation to be given greater supervisory power over the banks which constitute its risks.

At the present time the Federal Deposit Insurance Corporation has no way of controlling the chartering of new banks. Such new banks once chartered may easily become members of the Insurance Fund whether or not they are sound economic units and whether or not they will be able to continue operations over a considerable period of time. This obviously is a faulty condition.

And again, the Federal Deposit Insurance Corporation is obliged to insure a solvent reorganized bank without having any voice as to the soundness of the reorganization. New branches may be admitted to the Fund without even being examined by the Federal Deposit Insurance Corporation. Spreading the risk in such fashion is a mistake and works hardship to the remaining members of the Insurance Fund. In the interest of protecting the Corporation's future stockholders such matters as these should be changed.

As the law now reads, the Corporation upon assuming control of an insolvent bank is obliged to organize a new national bank. Such new national bank is to be operated by the Corporation until such time as sufficient capital can be raised locally to sell the institution to such interests. Such a scheme embraces two fallacies. In the first place, a provision should be made in the law allowing the F. D. I. C. the right to sell the assets in an insolvent institution to another neighboring institution in order that the credit of the Corporation may be released. In the second place, where the insolvent institution is not warranted it should be wholly eliminated from the picture. There is no purpose in perpetuating those institutions which experience has shown are not warranted from the point of view of service to the community.

Recent experiences have shown the banking system of the United States to be greatly at fault. Banks operate throughout the country under forty-nine different supervising authorities. The supervision which the depositor assumes the various state and national governments to exercise over the banks has been sadly lacking in effectiveness. We have heard much in the past few days about the moral obligation of the government to depositors in banks which have failed because of the fact that the various governments assume supervisory power over the banking institutions of the country. If it is true that the government is to exercise such supervisory power, it is likewise true that the people are entitled to full protection for at least a minimum amount of their deposits. In my estimation, the government has a moral obligation to depositors in the banks throughout the country, and for this reason the establishment of the Federal Deposit Insurance Corporation is a constructive step toward the realization of this moral obligation.

The Federal Deposit Insurance Corporation has played a singularly important part in the present recovery of the banking condition. The operation of the Temporary Fund has fulfilled admirably an emergency function but, gentlemen, we know now that the stronger banks in the industrial centers are intimately concerned with the troubles of other banks in rural communities. The recent depression has proved that no group of banks in any geographical locality is isolated from the banking situation in the country as a whole. For this reason it is important that the protection to depositors which an Insurance Fund makes possible be conducted on a national scale so that all may enjoy the same degree of protection. At the same time, conducting such insurance on a national scale offers a degree of diversification which is mutually beneficial and which heretofore has never existed. The success of the Permanent Insurance Plan of the Federal Deposit Insurance Corporation must be assured.

In conclusion, I would point out that the maximum benefits have not as yet been realized from the membership in the F. D. I. C. because the public has not been informed as to the extent of the operations of this Corporation. It is your job, gentlemen, to inform the people as to the benefits which they are at present deriving from the activities of this Corporation. We trust that just as soon as you realize the advantages to be gained from an increase of deposits you will undertake wholeheartedly to disseminate to the public the benefits which are being derived from memberships of your institutions in the Temporary Fund of the Federal Deposit Insurance Corporation.

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