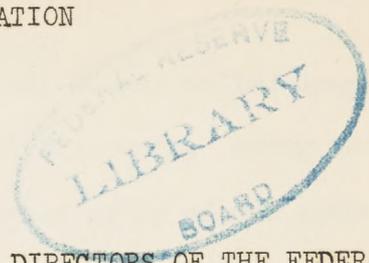


FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON

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ADDRESS OF HON. LEO T. CROWLEY, CHAIRMAN OF THE BOARD OF DIRECTORS OF THE FEDERAL DEPOSIT INSURANCE CORPORATION, AT THE 40TH ANNUAL CONVENTION OF THE WISCONSIN BANKERS ASSOCIATION, MILWAUKEE, WISCONSIN, JUNE 19, 1934.

Mr. Chairman and gentlemen of the Wisconsin Bankers Association:

There are two reasons why I am particularly pleased to have this opportunity of addressing you. First, many of you are my personal friends and then, of course, Wisconsin is my home state and I have a very personal interest in its progress. Second, it gives me the opportunity of reviewing with you the history of the banking situation in Wisconsin for the last few years.

I propose to deal with this situation frankly. I know that you understand from your personal experience my sympathy toward you during your days of worry and anxiety a year ago, and that you also know the energy which I expended in assisting you in every way I possibly could to meet your manifold problems. For that reason I hope you will believe that what I have to say is not intended as a reflection upon any individual group. I simply want to try to clarify a viewpoint which exists in the minds of many of the bankers of our state.

Because of the general unrest there were continual withdrawals from our financial institutions starting with 1931 and after the banks had liquidated the major part of what current assets they had they were forced to borrow money either from their correspondents or from the Reconstruction Finance Corporation to meet these withdrawals. Finally, a number of our banks found themselves in a position where they had pledged the largest part of their liquid assets. But they had preferred depositors and had accepted additional deposits from customers and friends and then came the realization that the situation was not improving but, on the

contrary, was getting worse. The state legislature in 1931-32 was called upon to enact legislation to try to save the banking structure of Wisconsin. Among these laws was one creating the banking board of review, a compact group of men authorized to make an intensive study of the problem and in my judgment this group contributed greatly towards a solution.

Legislation was also enacted permitting the writing down of deposits in order that bad assets might be eliminated and your banks placed in a solvent condition. It is to be regretted that in some instances the voluntary writeoffs accepted by depositors were as large as 80 and 90 per cent. Bankers even appeared before the state banking authorities proposing that depositors waive all of their liability and allow the banks to take the few remaining good assets and set them up for capital purposes.

During the latter part of 1932 your situation was becoming most critical and in the early part of January, 1933, one of the first acts of Governor Schmedeman was to provide scrip as a means of giving you some liquidity since you had pledged practically all of your assets for bills payable. There was three million dollars of this scrip printed and some two million dollars of it was placed in circulation. A clearing house was set up which made the scrip marketable and I believe it was very beneficial to a number of our small institutions.

Many banks closed their doors in the state of Wisconsin during January, 1933. February was but a repetition of this crumbling and finally, in March, Governor Schmedeman closed all of the state banks and kept them closed until the banking commission determined whether or not they were solvent.

This moratorium was for the benefit of the depositors as well as the banks themselves. If things had been allowed to go on as they were some depositors would have drawn out all of their deposits, while others would have lost all of their

savings.

There were some 304 banks that were finally restricted and not permitted to allow withdrawals except on a restricted basis. Their new deposits were segregated on the theory that it is dishonest and despicable to allow depositors to put their money in unsound institutions.

Examinations of our banks after the national moratorium proved conclusively that we had a number of institutions in Wisconsin which were without any, or very little capital structure. We had already called upon the stockholders in the local communities to do their share and they raised approximately five million dollars for capital aid.

Now let us go back a bit beyond 1931. During the period from 1921 to 1933, 236 banks closed in the state of Wisconsin with a total deposit liability of over 77 million dollars. There were approximately 160 banks stabilized by the voluntary writeoffs of their depositors amounting to about 30 million dollars, making a total of money tied up in closed or stabilized banks of over 100 million dollars. In addition to this, there were in these 160 banks some 50 million dollars held on a restricted basis, money which, supposedly, was to be released over a period of years.

The seriousness of the situation becomes sharply apparent when you realize that out of 500 state banks in Wisconsin, 304 were unable to meet their deposit liability. I think you will also appreciate the tremendous strain which this imposed on those institutions which were still trying to operate on a normal basis.

I don't mean to say that this crisis, and it was a crisis, was limited to Wisconsin. It was nation-wide. President Roosevelt recognized the seriousness of the situation and realized that depositors of this country would not put their money in banks unless those banks were first made safe. He believed that depositors were entitled to this safety and he therefore advocated a two-fold program.

First, he proposed to authorize the Reconstruction Finance Corporation to buy preferred stock, capital notes or debentures in the banks of this country in order that they might acquire an adequate capital structure and thus give the depositors the safety to which they were entitled. Second, he proposed to set up a corporation to be known as the Federal Deposit Insurance Corporation which, under its Temporary Fund, would insure the first \$2,500 of their deposits for the masses of the people. The essence of the President's program was to re-establish and stabilize confidence in the banking structure of our country.

By December 31 of 1933 the Federal Deposit Insurance Corporation, under the program, had to determine the solvency of the state banks which asked to be admitted to the insurance fund. I want to recall to you that Wisconsin was one of the first states to enable its banks to take advantage of this program. Here in Wisconsin your banking commissioners and the members of your board of review worked night and day and week after week to get the banks into a position where they might obtain this deposit insurance.

In practically every instance in Wisconsin this position could not be attained, due to the lack of local capital, until the R.F.C. had come to the assistance of the banks. Therefore, it was not until the R.F.C. had given the Federal Deposit Insurance Corporation a blanket commitment that it would buy either preferred stock or capital debentures in nearly every Wisconsin bank in an amount determined by the F.D.I.C. that your institutions were eligible for membership in the fund.

So, let us understand each other. Your commitment with the R.F.C. was a part of your agreement with the F.D.I.C. that when you were taken into the fund you would make your institution solvent. You would rebuild your capital structure; you would place your institution in such a position that the Federal Deposit Insurance Corporation could certify it as an institution which, under the laws of the United States,

was eligible for membership in the fund.

Now what does it mean to the Corporation to make such a certification for banks in Wisconsin? On March 31st of this year the book capital of 630 banks in this state amounted to about 89 million dollars. The total deposits in those banks amounted to about 540 million dollars. Upon the basis of examinations which have recently been made, it appears that the net sound capital in those 630 banks is about 50 million dollars. In other words, the total net sound capital investment in the banks in Wisconsin amounts to less than 10% of the total deposit liability in those institutions. This is an unhealthy situation and must be corrected.

Analysis of the size of your banks and the amount of insured deposit liability will serve to demonstrate the Corporation's interest in putting this structure on a sound foundation. I am taking these figures from the study made on the basis of the \$2,500 maximum of insurance. You will, of course, realize that under the legislation recently passed raising this maximum to \$5,000 on July 1st, the Corporation's liability in Wisconsin will be very materially increased.

There are in Wisconsin 617 banks which are insured. Of these 103 are national banks, 14 are state banks which are members of the Federal Reserve System, and 500 are state banks which are not members of the Reserve System. 419 of the banks of the state have deposit liability of \$500,000 or less. Of the total deposit liability in these banks the Corporation has an insured liability of 69% under the \$2,500 maximum. You have 140 banks with a deposit liability of \$150,000 or less, and the Corporation here has an insured liability of 74%. You have 100 banks with total deposit liability of from \$500,000 to \$1,000,000 with insured liability of 66%. You have 60 banks with deposit liability from \$1,000,000 to \$2,000,000 and insured liability of 65%. You have 16 banks with deposit liability of from \$2,000,000 to \$5,000,000 with insured liability of approximately 63%, and you have 12 banks with

deposit liability of from \$5,000,000 to \$50,000,000 with insured liability of about 49%. You have one bank with deposit liability of over \$50,000,000 with insured liability of a little over 29%. This makes a total average insured liability under the \$2,500 limit of about 54% for all the banks of Wisconsin. If we were to exclude public funds deposited in these banks the insured liability of the Corporation would be advanced to in the neighborhood of 62%. Under the new limit of \$5,000 of insured liability in each account this will probably be increased by more than 10%.

Gentlemen I believe this tremendous liability of the Corporation here in Wisconsin gives it a distinct right to have some voice in the building of a sound capital structure and in the efficient operation of your institution. We have no desire to interfere with your management. Please understand that, But we do feel that bearing this huge liability the least we may expect from you is that you will fulfill your obligations and complete your agreement with us in accepting funds from the Reconstruction Finance Corporation.

It is the hope of the Corporation that with your cooperation we will be able to rebuild the capital structure of the banks of this nation and state on a ten to one basis. Our purpose in doing this is to give the depositors ample protection. That is the only purpose.

If we can accomplish this it is our judgement that a tremendous stride will have been taken towards business recovery.

This brings up the claim of a few chronic alarmists, some echoes of which have been heard in Wisconsin, concerning government control of business.

Let me assure you, the government has no desire to own the capital structure of your banks. You flatter yourselves if you believe the government wishes to enter your institutions. The government is merely trying to protect depositors by R.F.C. commitments because the money has not been available locally. But let me say this

to you. Those Wisconsin bankers who have R.F.C. commitments and who can secure local aid to a degree sufficient to cure their impairments will find that the Reconstruction Finance Corporation will be happy to cancel their commitment.

There has been considerable discussion about the employment of these funds and considerable confusion regarding the much discussed liquidity of various institutions. Perhaps you hesitate to recall that only a few months ago you had bills payable, the great majority of you, to a point where you had very few assets on which you could borrow. I want to emphasize that much of the liquidity which you enjoy today is because of the wisdom and foresight of your banking commissioners in obliging you to segregate your new deposits until you were able to put your houses in order and in a solvent condition. Liquidity and solvency are not part of our discussion here. Every bank operating in a state must have a sound capital structure. If you cannot furnish it locally, some other source must provide you with temporary aid to build and cement that structure.

There are, of course, other important considerations in sound and efficient banking. One of these is the current writing off of losses and another is wise economy. No banker can know the real condition of his bank unless he sweeps out regularly and takes the losses which are bound to occur periodically. Every well managed business follows that practice. In my opinion, however, there were dividends paid by Wisconsin banks in years past which would never have been available had losses been taken into consideration. Your first duty is to maintain the soundness of your bank. Take your losses when they occur. Keep your houses clean. And then, gentlemen, you can look to the future.

In any discussion of banking the problem of the small bank is extremely important. I believe the small institution has a definite place in the financial structure under our present social setup, but the small banker has many special

problems. I suggest to those of you who are operators of small banks that you form groups to study the problem in your own particular field. With such an organization you could certainly devise methods of putting your banks on a more substantial footing and I'm sure you would learn many things by studies and surveys which would be of great benefit to you as individual bankers. You would also be able to make wise and helpful suggestions to the legislature and thus obtain the enactment of laws beneficial particularly to small banks.

I have mentioned the possibilities in a study of the field. I think this is a good place to give you an analysis of the amount of money which the state of Wisconsin has received from federal agencies because of the government's desire to assist this state in reestablishing itself after the depression.

The Reconstruction Finance Corporation has total authorizations in Wisconsin of more than \$55,000,000 which includes its capital purchases in banks.

The Farm Credit Administration in the first eleven months of operation completed refinancing to the extent of about \$27,000,000 in Wisconsin.

The Home Owners Loan Corporation up to a recent date had completed 5,715 loans in Wisconsin for a total of more than \$21,000,000.

The completed Civil Works Administration program put more than \$35,000,000 to work in Wisconsin.

Public Works Administration projects in Wisconsin total about \$15,000,000.

Federal expenditures for highways total nearly \$10,000,000.

The Federal Emergency Relief Administration allotment to Wisconsin, exclusive of drought relief, has been nearly \$30,000,000.

Specific allotments for drought relief amount to \$4,400,000.

Already federal assistance in Wisconsin is verging on \$200,000,000 and the program is not complete. Look at it another way. The population of Wisconsin is

roughly three million people. That means the government has brought nearly \$66 into this state for every man, woman and child.

I believe that after a fair analysis of this tremendous aid we should be most thankful for the cooperation we have had from the federal government and it seems to me that we are distinctly ungrateful if we say to the government now "get out, you are interfering and we don't want you". Certainly the state and federal governments have a responsibility at this time which cannot be sidetracked by the old argument of interference with business.

The record, I believe, justifies every step which has been taken by your state and federal government in banking recovery. Gentlemen, I know the tremendous strain and worry which you went through in the dark days a year ago. I know that many of you laid awake nights wondering what the next day would bring. And I know that in many, many instances the situation was caused by no fault of your own. You are entitled to the utmost credit for the efforts you made in guiding your institutions through the storm. Now there are lights showing through the clouds. Perhaps this program of rehabilitation may result in temporarily reduced dividends, but you can sleep nights, gentlemen, and you know that your banks are growing again, this time on a foundation of rock.

There is much yet to be done. One of the major problems facing the next legislature is the setting up of banking laws that will not again permit the breaking down of our structure. Certainly, with the Federal Deposit Insurance Corporation in operation, there is no justification for any law permitting the writing down of deposit liability in wholesale fashion as has occurred in the past.

I wish to express my appreciation to the banking commissioners, Stanley Schafer, Herb Ibach and Peter Cleary, who have toiled so hard during the last few months and who have in every way attempted to cooperate and recognize your

problem. I also wish to express my personal feeling of admiration for the members of the Board of Review who have worked so untiringly in trying to be of assistance to you. I believe that men like H. A. VonOven, J.F. Schreiner and Charles J. Kuhnmuensch deserve your commendation. I also want to pay tribute to a man who spent the few last minutes of his life working to save the Wisconsin banking system. I refer to my friend Milo Hagan, a member of the banking commission, whose tragic death last Christmas Eve was a tremendous loss to Wisconsin.

And I have utmost admiration for the bankers of Wisconsin who had the courage to stand by their institutions and lead them through the storm. I want you to know that it is not my desire to cast any reflection upon any individual or group. I want to assure you again that those of you who have capital structures sufficient to meet the requirements on a basis of ten to one will receive complete cooperation from us regarding your R.F.C. commitments.

But we must have a program if we are to emerge successfully from this depression, and I hope that you will give us your wholehearted cooperation so that within a few months we may be able to say to the people of Wisconsin that every bank has a capital structure on a basis of one to ten to its deposit liability.

I have spoken frankly to you today. Some of the things I have said would have caused a hush to come over this room had they been said a year ago, because you were so fearful then of anything which might destroy the confidence of the people. Today, I'm proud to say, I do not know of a single insolvent institution which is operating in Wisconsin, taking R.F.C. aid into consideration. And with that knowledge I felt that I could express myself frankly and give you my considered opinion so that the people of Wisconsin can know the program which we are trying to carry out and the end which we are trying to attain.