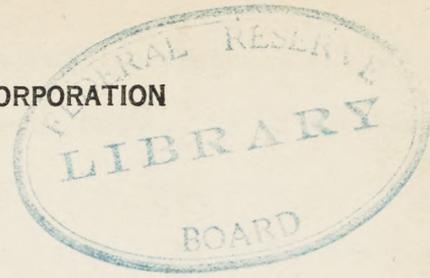




FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON



FOR RELEASE AFTER 10 A. M. FRIDAY, OCTOBER 19, 1934

ADDRESS OF THE HON. LEO T. CROWLEY, CHAIRMAN OF THE BOARD, FEDERAL DEPOSIT INSURANCE CORPORATION, BEFORE THE CONVENTION OF THE STATE BANKING SUPERVISING AUTHORITIES, BALTIMORE, MARYLAND, OCTOBER 19, 1934.

Mr. Chairman:

The Federal Deposit Insurance Corporation welcomes this opportunity of meeting with you.

State banks are now insured in the Corporation's Fund in the amount of nearly six billion dollars. This tremendous liability carried by the Federal Deposit Insurance Corporation interests us profoundly in you as representatives of the state banking system.

This insurance has been welcomed alike by the depositors and the banks. There can be no question that it is needed. Between 1921 and 1932, inclusive, 8,720 state banks were closed, tying up three and three-quarter billion dollars in deposits.

Our banking system broke down early in March 1933. The state system suffered the same fate as the national system. Only the prompt action of the national administration in the enactment of the Banking Act of 1933 prevented a complete and final collapse of our financial system. Passage of this act was the first step in restoring confidence to the millions of frightened depositors in the country. No other provision of the act was more important in this regard than that of deposit insurance.

These definite steps towards a stronger and more secure banking system made possible the re-licensing and re-opening of our banks, and once again the country was operating on a normal basis, or at least near normal so far as daily

financial transactions were concerned. The Federal Deposit Insurance Corporation, which was created by the Banking Act of 1933, promptly undertook, in cooperation with you, the examination of our state banks and on January 1st of this year when the Corporation began actively the business of insuring deposits 7,556 state banks were immediately insured.

Since then additional banks have been insured, making a total of 8,719 insured state banks on October 15, 1934. State banks, of course, are in the majority among the membership of our Fund. Very naturally, then, we are vitally interested in the strength of the state system.

With the return of confidence money began to flow back into our banks and today, in sharp contrast to the condition of March, 1933, the banks of the country as a whole are in an extremely liquid condition. This rehabilitation of the banking system is brought out sharply in the latest call reports which show an increase in deposits of four and one-half billion dollars. The state banks had their share of this phenomenal increase. In fact, the reports show a substantial increase for the banks of every state in the Union.

Although this situation is fortunate and I am glad it has occurred, it does not mean that the banks of this country are once again on a sound basis. A bank which is 75% or 85% liquid is really not in the banking business. It is a mere depository. And as business continues to improve and commercial loans increase this high degree of liquidity will soon be reduced. Then we come to the basic strength of the banks--capital structure.

When the Federal Deposit Insurance Corporation began operations it was necessary to move fast and as a result the great mass of state banks were given the benefit of insurance immediately upon the one test of solvency. However, our examinations soon disclosed a weakness of capital structure in many cases. It became the concern of the Corporation because we feel that adequate capital is necessary if a bank is to be fundamentally sound. We set about to improve the situation. We

had two reasons for this campaign. First, we believe that a strong capital structure is in the interest of the depositors and the stockholders of the bank as well as the community it serves. Our second reason was a selfish one. A bank with an ample capital is not apt to become a drain upon the Corporation's Fund.

Local communities did their utmost to furnish additional capital for weak banks, but unfortunately this was not enough. Where local funds were not available and capital was needed the situation was met through cooperation on the part of yourselves, the Reconstruction Finance Corporation and this Corporation. About 3,600 state banks were aided by the Reconstruction Finance Corporation in rebuilding their capital to a total amount of 480 million dollars. All will agree that this has been an outstanding contribution to the strength of our state system.

There is still much to be done, though our banking structure today, including the state system, is in a stronger position than it has ever been before. Weak banks have been largely weeded out. The capital structure has been greatly strengthened. There is no longer any fear of a panic among depositors with the resultant disastrous run on a bank.

However, we must not lose our present gains. The history of bank suspensions from 1920 to 1933 has proved that the country was greatly overbanked. In that period the total number of banks has been reduced one-half. The proportion for state banks is about the same. It has been the most intensive weeding out process in more than sixty years. With the gains we have made in the last year we must not fall into the error of former days and allow new and uneconomic banks to open indiscriminately.

There are undoubtedly many situations where the state statutes and the powers given to the supervising authorities do not enable them to prevent the chartering of banks which are not needed and which are economically unsound. Nevertheless every effort must be made to prevent such a tragedy--there is no other name for it.

A bank without adequate capital, without the possibility of sufficient earnings to meet expenses and losses and to provide capable management, or without a real field for service, is more likely to be a menace than a benefit to the community.

The healthy bank is the financial heart of the community, providing the strength for development and growth. It is your privilege and that of the Federal Deposit Insurance Corporation to promote and aid such banks. I recognize that there is a distinct difference between the huge metropolitan institution and the small bank which plays such an important role in community life. To have a clear understanding of our banking problem we must recognize that this difference does exist.

I am sure we are all agreed that no insolvent institution can be allowed to operate. In the past there have been undoubtedly many cases of continued operation by banks with an impaired capital or even by insolvent banks. This has led to the inevitable consequence--depositors have always suffered. Fairness to depositors demands that impairment of capital structure be promptly corrected. The Federal facilities now available for aiding banks are such as to protect every situation and every legitimate interest. No injustice will now be done in taking a firm and courageous stand for an immediate 100% sound banking structure. In dealing with this, as in other matters, the facilities and resources of the Corporation will be freely placed at your disposal.

In the business of promoting sound banking you, as the State Banking Supervisors, are all partners. You particularly have a common interest with each other and with our Corporation with reference to the Federal deposit insurance. The Federal Deposit Insurance Corporation is only another partner with you seeking the same end in preventing losses to all of us in bank closings.

I believe that officials of the Corporation and you, as state banking authorities, see eye to eye generally on the problems which confront us. Any difference of opinion is more the result of misunderstanding than divergence of views.

That is why I hope you will make use of the service which the Corporation can give you.

To facilitate our own activities and to give the most effective cooperation in your work, the Corporation has considered conducting a school for examiners, and developing a service which we would like to call a "bank clinic." This would be a service for dealing with individual banking problems which would be available to you if you wish to use it. It is the intention that the facilities of the school for examiners and of the "clinic" be made available to the supervising authorities of any state so far as the Commissioner of the state may desire. We plan to offer this service merely as partners. Our thought is that every contribution possible must be made to carry our joint enterprise to a successful conclusion.

Changes in the permanent Federal Deposit Insurance law will doubtless be necessary before it goes into effect on July 1st of next year. Within a short time I expect to give my views on these changes, and I will not discuss that problem here.

Let me remind you that the several state legislatures will be in session this winter. Doubtless you will be called upon to meet and advise with members of your legislature in the preparation of more adequate supervisory laws. The collapse of our banking system in 1933 impressed people generally with the need for such added powers. Amendments may also be required to enable you to get the greatest advantage from recent Federal legislation. You must take the lead in this matter and give the lawmakers of your various states the benefit of your experience.

The problems will differ with each state, but may I suggest that you consider carefully the idea of making certain that your laws are such that your banks and you as supervising officials can obtain the maximum amount of benefit from the various Federal agencies. In this the Corporation will give any assistance possible, especially with a view of promoting a desirable uniformity, and you will not only increase your effectiveness as supervisors and aid the banks, but you will increase

the efficiency of the governmental agencies established to aid you.

We appreciate the wholehearted cooperation we have received from state banking authorities. Without it the Federal Deposit Insurance Corporation could not have accomplished many of its objectives. But now I am fearful there may be a tendency to let down the bars a bit and allow economically unsound banks to open. I cannot impress upon you too strongly that if the state system of banking is to survive it must be fundamentally strong. Its units must be sound if the structure as a whole is to be an important part of our economic life.

It is my firm opinion that the state banking system can be as strong and as important as any part of our system of banking if the present trend is continued. Strengthened by funds from the Reconstruction Finance Corporation, which will be gradually replaced by local money, buttressed by the Federal Deposit Insurance Corporation, and properly supervised by state authorities, the state system is and will continue a vital force in our financial life.

We of the Federal Deposit Insurance Corporation come before you as partners in that enterprise. Certainly no one, not even the bankers themselves in many instances, is more interested in a strong state system than the Federal Deposit Insurance Corporation in view of its great responsibilities.

The Corporation is insuring approximately 70% of the deposits in state banks. That is why we are so vitally interested in the strength of the units and the soundness of the system. No group of banks has more small depositors than state institutions. Deposit insurance was created by Congress to protect the small depositor.

Our state banking system was saved in 1933 by Federal Deposit Insurance. Its continuance depends upon maintaining the integrity of this insurance. Again that depends upon the effectiveness of banking supervision. The future must not merely duplicate the past. We have learned our lesson. It is our job to see that

there is no repetition of the painful and disastrous experiences of the years between 1921 and 1933, either for the depositors or for the bankers.

We have the same responsibility you have in building and strengthening a strong state banking system. Let us meet it together.

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