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FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON

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Excerpts from the address of Hon. Leo T. Crowley, Chairman of the Board, Federal Deposit Insurance Corporation, at the Annual Dinner of the Pittsburgh Bankers' Club, Duquesne Club, Pittsburgh, Penn., March 21, 1935.

"Mr. President, Gentlemen of the Bankers' Club of Pittsburgh:

"It gives me a great deal of pleasure to meet with you and to talk to you about some of the problems connected with deposit insurance. I welcome the opportunity particularly because it comes at a very timely stage in the development of banking in the United States. It is important that we, in Washington, who are concerned with the administration of various aspects of Federal banking legislation should have an opportunity to meet with you bankers to get your reactions and to benefit by your suggestions. I was glad to accept Mr. Fawcett's invitation because I felt that this group especially could offer many constructive suggestions.

"I wish to discuss with you, very frankly, some of the more important aspects of the problems facing those charged with the responsibility of administering the Federal Deposit Insurance Corporation. I should like to point out to you what has been done in almost a year and a half of operation. I should like to explain some of our viewpoints in connection with new legislation and shall outline briefly, some of the reasons for proposing amendments to the present statute. I should also like to say a few words about the proposed assessments and about the over-head of the Corporation. Finally, I should like to call your attention to various features of the loss experience of bankers and depositors and conclude with some suggestions for handling these problems in the future.

"The Federal Deposit Insurance Corporation is charged by Congress with the duty of protecting depositors in insured banks. Every activity of the Corporation is motivated by that objective. This all-important assignment is supplemented by the duty of paying promptly the insured portion of the accounts of depositors in insured banks which for one reason or another close."

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"The Federal Deposit Insurance Corporation is operating in a field almost entirely without precedents. It must establish its own precedents and these must be right. In order that the directors might be supplied with all the available material, we commissioned a small group of people to devote their attention toward analyzing all previous experiments in depositor safety. We wanted to learn from past experience what mistakes, if any, had been made, and we were anxious to benefit thereby. Furthermore, we needed to know what the losses were during the past years, as these have a very definite effect on the assessment rate. It was only by gaining a more thorough knowledge of what had happened that we could in any way lay authoritative plans for the future.

"The Insurance Corporation must take every means to avail itself of as comprehensive material as it is possible to get concerning the condition of its insured risks. Heretofore while there has been very adequate information in the form of examinations, reports of condition and earnings and dividends for bank members of the Federal Reserve System, there has never been adequate information at Washington for the banks outside the Federal Reserve System. We have attempted to collect this information from State banks not members of the Federal Reserve System, which, as you know, is the largest group of banks in the United States. Collection of this large volume of new data by the Corporation, through its examiations and its calls for reports of conditions and earnings and dividends of nonmember State banks furnishes us with an important segment of information. The structure is now almost complete insofar as operating data for all commercial banks is concerned. It was important for the success of the Insurance Corporation that it have this information."

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"The lack of uniformity which exists in American banking today is a factor which seriously complicates the work of the Corporation. Our Legal, Examining and Research departments have devoted much of their attention to the development of more standardized procedures. They will continue to devote even more of their attention toward the development of uniform laws, uniform examination reports, and uniform condition and earning and dividend reports in the future. Much progress along these lines has already been made. The Corporation enjoys the complete co-operation of the National Association of State Bank Superintendents and through our combined efforts accomplishments seem to be satisfactory. We hope to be able to further this work which has as its ultimate objective the standardization and simplification of rules and regulations under which the business of banking in the United States is conducted."

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"The Corporation has paid deposits in twelve suspended insured banks. The total deposit liability of these twelve banks at the time they closed was about three million dollars. Approximately one million, nine hundred thousand dollars of this amount represents the insured portion, for which the Corporation was liable. Nine hundred thousand dollars of the balance were made up of deposits which were preferred, secured, or subject to off-set. The remaining two hundred thousand dollars were uninsured and unsecured deposits, not subject to off-set. Upon the appointment of a receiver by the responsible supervisory authority the Corporation has immediately undertaken the liquidation of its liability to depositors in these banks. In most cases we have begun to pay off insured depositors within ten days of the appointment of a receiver. In one case the Corporation paid off about one-third of the insured deposits, or nearly fifty thousand dollars, the day following the appointment of a receiver. To my mind this brings home very vividly the tremendous change which has been brought about by the existence of the Federal Deposit Insurance Corporation. It is in striking contrast to the former procedure where the small depositors, who could least afford to do so, were obliged to wait months, even years, before they received any liquidation of their hard earned wages."

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"In December, 1933, when our work was of an emergency character and its volume was at a peak, more than 2,600 were in the employ of the Corporation. Since that time, the volume of work has tapered off and as a result it has been possible to reduce the staff. At the present time, there are about 800 employees, a little over 200 of which are at the head office in Washington. The balance of less than 600 are in the field, making their headquarters at twelve district offices throughout the United States.

"From the time the Corporation was organized in 1933 to December 31, 1934, our expenses, including payment of claims of depositors in suspended banks, amounted to about five and one-half million dollars. The total earnings of the Corporation, which are derived from the investment of the capital stock and a portion of the bank's assessment in Government bonds, amount to nearly seven and one-half million dollars. The net income, therefore, is approximately two million dollars."

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"The budget for 1935, which is now under consideration, contemplates an income from investments of about nine million dollars and expenses of operation, exclusive of the amount which will be paid out to depositors, of about two and one-half million dollars. This will leave a net income available for liquidation of insurance claims and for surplus of about six and one-half million dollars."* * * *

"During the brief life of the Corporation, numerous conferences have been held with state supervisors with a view to obtaining the mutual benefits to be derived from such contacts in the solution of common problems. The Corporation has benefited materially by the experience thus gained and it is felt that gratifying progress has been made toward a better understanding of the objectives and purposes of the Corporation.

"Your own Secretary of Banking, Dr. Luther A. Harr, is particularly cooperative and helpful. His sympathetic appreciation of our mutual problem is very gratifying to the officials of the Corporation and we welcome the opportunity to work with him. Our brief contact with him has been pleasant. The bankers and the public of the State of Pennsylvania are to be congratulated on having a man of his caliber as secretary of banking."

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"The Federal Deposit Insurance Corporation is primarily interested in losses which depositors have been obliged to take because of bank suspensions. Our interest in the losses which stockholders and others are obliged to assume is only secondary. To be sure, we are interested in this phase of the problem too because in order to operate on a sound economic basis, banks must be able to earn enough to write off these losses currently. We cannot justifiably face the future and expect either the depositors or the Federal Deposit Insurance Corporation to assume such excessive losses as have been borne through the failure of banks and through write-downs and waivers of deposits.

"More than 16,000 commercial banks with deposits of nearly nine billion dollars are known to have suspended operations during the 70 year period prior to 1934. The losses to depositors in these banks are conservatively estimated at three billion dollars. The annual rate of losses incurred by depositors in that period was about one-third of one per cent of the deposits of the entire commerical banking system. Of the three billion dollars of losses in commercial banks, one billion was the amount which depositors of national banks were obliged to assume while two billion dollars was the amount assumed by depositors in state and private banks.

"In other words, for every $100.00 of deposits in the commercial banking system, about 31¢ per year was lost. For each $100.00 of deposits in the national banking system, 21¢ per year was lost, as against 39¢ per year for every $100.00 in the state system. These figures represent minimum estimates. We do not believe the available figures cover all state bank suspensions. In addition, no allowance has been made for losses to depositors occurring through voluntary liquidations, through waivers of deposit, voluntary write-downs or through depositors' contributions to capital as a means of absorbing losses and reorganizing banks.

"Let us look for a moment at another aspect of this loss problem. The extent to which banks incur losses is determined very largely by the character of the credit risk. In considering the various phases of the deposit insurance problem we must remember that the type of credit extended is perhaps the most important single factor insofar as the anticipated losses to the Corporation are concerned. In appraising our insurance problem we must not lose sight of the ever-changing credit requirements of the country since they affect insurance risks.

"More specificially, losses on loans, as contrasted with losses on investments afford an interesting comparison. Adequate information is available only for national banks. Losses on loans and investments incurred by national banks have averaged about one per cent per year. In other words, out of each $100.00 of loans and investments the bankers have been obliged to write off on the average $1.00 per year. Unfortunately, we do not have figures on the amounts which have been recovered on liquidation of these write-offs. Such data as is available indicates, however, that about one-fourth of the amounts of loans and investments which have been written off have subsequently been recovered. For the past 15 or 16 years losses on loans and discounts have been about $1.00 per year for every $100.00 of this type of asset, as against $2.00 per year for every $100.00 of bonds and securities, other than obligations of the United States Government. In other words, the figures seem to indicate that the write-offs on bonds and securities, other than Government bonds, have been at a rate twice as great as the write-offs on loans and discounts per $100.00 of each type of asset. The proportion of write-offs subsequently recovered seems to be about the same for the different classes of assets. The obvious deductions to be made from these figures are that the bankers on the whole have been better able to appraise the character of the credit risk involved in a loan or discount than in the risk involved in an investment in bonds or securities. Perhaps our recent experience has taught us an all-important lesson along this line."

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"You may be interested to know that there are over 9,600 banks in this country today in which deposit insurance, under the present limits, covers 80% or more of total deposit liability. Fifty-four per cent of all the national banks and eighty per cent of all state banks have 80% or more of their total deposit liability covered by insurance at the present time. While the extent of the Corporation's liability is not as great in any one of the remaining 4,500 banks it is, nevertheless, considerable. The reason for pointing out this particular figure is to show you that the Corporation, having a liability to depositors in each of these 9,600 banks which is at least four-fifths as great as their total deposit liabilities, is vitally concerned with their efficient operation.

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"Let me say a word about the proposals for revised Federal legislation insofar as the powers of the Corporation are concerned. By the provisions of the temporary law under which we are now operating the Corporation has the power to make periodic examinations of non-member state banks. There is some question as to whether this power exists in the permanent law, as it now stands. We believe this point should be clarified. We believe, further, that it is essential to the Corporation that it be given the right to examine state banks, not members of the Federal Reserve System, and that its access to examinations of member banks made by the Federal Reserve System or the Comptroller of the Currency be continued. In special cases, where the Corporation may be interested in effectuating the merger or consolidation of several insured banks, it is felt that the interests of the Corporation may best be served if it is given the right to examine all of the banks affected, regardless of whether they be member banks or not."

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"We have asked Congress for the authority to terminate the membership of any bank in the Fund which persists in so conducting itself and its affairs as to be constantly increasing the probability of ultimate suspension with the consequent loss to depositors and this Corporation. The existence of deposit insurance places upon the Corporation and upon Congress a moral obligation for sound management of banks as well as a very definite responsibility to bank depositors. If insured banks engage in practices which are detrimental to the depositors, the Corporation must have the right to withdraw its endorsement of those banks. The termination of insurance is effected according to the proposed plan only after proper hearings. The benefits of insurance extend to depositors for two years from the date of termination of membership of the bank in the insurance system. The right of dismissal may seem somewhat drastic but we do not believe it to be consistent with sound business principles to be required to underwrite risks without the power of protecting depositors and the Corporation."

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"We have recommended, furthermore, that the liability on the part of the banks for assessments for insurance purposes be limited to a known maximum annual rate. The amount and adequacy of the annual assessment will, of course, be determined by the amount of losses which may be incurred by the system. If the Corporation is given adequate powers to protect itself against excessive losses or against the persistence of unsound banking practices, the annual rate of assessment may be lower than would be the case should no such powers be granted.

"The benefits of deposit insurance are not limited to the protection of individual depositors. The entire banking structure of the country is so intimately interwoven that disturbances in any part of it can cause repercussions of far-reaching proportions. The benefits which will accrue because of greater stability in the banking structure are real and tangible. For these reasons, I believe that all banks, large and small, should be required to support the insurance system.

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"As I have pointed out to you, our obligations are heavy, our responsibilities great. We believe that they extend beyond a mere routine administration of machinery for paying losses and for assessing those losses against the banking system. Our studies have convinced us that deposit insurance cannot be successful if these losses continue. We are determined to make a success of the insurance of deposits. To do so we must not only pay losses, we must also seek to reduce those losses to the lowest possible minimum consistent with service to the community. In that way we can constitute ourselves a constructive force in the financial world. We must keep faith with the public and retain their confidence in the soundness of our objectives and in the integrity of the banking system. This requires the united support of the banking fraternity and of the public which they serve."