FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON

ADDRESS OF HON. LEO T. CROWLEY, CHAIRMAN, FEDERAL DEPOSIT INSURANCE CORPORATION, BEFORE THE SOUTH CAROLINA STATE BANKERS ASSOCIATION AT THEIR ANNUAL CONVENTION

CHARLESTON, SOUTH CAROLINA MAY 4, 1937

"AMERICAN BANKING FACES THE FUTURE"

Mr. Chairman, distinguished guests, and members of the South Carolina Bankers Association:

I have looked forward to this visit to one of the South's loveliest cities and to my first meeting with the members of this Association. My calendar, like yours, has been so crowded during the three years I have been associated with the Federal Deposit Insurance Corporation that there have been all too few opportunities for pleasant contacts such as this with my friends in the world of banking.

In retrospect I can remember no other so busy or so interesting three-year period in my life. Nor can I realize that our thoughts and our ways of life have altered so considerably since I took office early in 1934. The energy and effort we then directed toward stopping the depression and stemming the tide of deflation have turned now to applying brakes to a boom and to preventing inflation. Where in 1934 we saw widespread unemployment, we now hear constantly about the serious shortage of skilled and semi-skilled labor. Surpluses of raw materials and commodities which then filled our warehouses and storage bins have been exhausted and in many cases it is now difficult to meet the demand for these goods. Bank deposits have grown from the low of $41.5 billion in 1933 to an all time high of more than $61 billion as of December 31, 1936. Increased business activity is reflected in available figures of

bank debits which indicate that our banks have emerged, temporarily at least, from the lean years of large deficits.

It is good to see these signs. They indicate a return to what we like to think of as normalcy. We take personal pride in them because they represent real achievement in overcoming the tremendous force of an unprecedented depression. We look forward to a fuller realization of their promise since they indicate we may expect soon to regain a fair amount of leisure to devote to outside interests.

I hope we all may enjoy to the fullest the fruit of these changes, but I should hate to have us lulled into a sense of false security. There still is much to be done before we can assert with safety that a healthy future for our banking system is assured. For this reason, I urge that we devote the lion's share of our new-found leisure to clear-headed planning and to vigorous application of the plans so that when the business cycle begins its next downward glide our banks will be in shape to outlast any strains to which they may be subjected.

Certainly the record of the last decade and a half constitutes a challenge to the bankers of America. There can be no justification for the shameful fact that during the thirteen-year period from 1921 to 1933, inclusive, 16,800 of this country's banks ceased operations because of financial difficulties, and that of the more than $9 billion of deposits in these banks at the time they closed more than $3 billion have never been recovered by depositors. In your own State of South Carolina during this period 340 banks with deposits in excess of $135

million were suspended. If we can assume that the loss ratio for the country as a whole applied to the situation in this State, it means that from 1921 through 1933 more than $45 million of depositors' funds vanished into thin air. No nation, no State, and no community can long withstand such a continuous seepage of its wealth; nor can any people be expected to bear placidly the suffering and bewilderment of having its funds, whether working capital or savings, disappear through the workings of economic forces which are difficult to comprehend.

It requires only ordinary vision to realize what will happen to our banking system in the event this loss record is repeated. Everyone of you here today is to be commended for his courage, because every person who enters the banking business today and every person who has managed to remain in that business throughout the recent purge assumes responsibility not only for his own economic survival, but also for the survival of American banking as it is now and traditionally has been constituted. That, my friends, I consider a real challenge. You and I, as bankers, have assumed a tremendous responsibility. I hope we are capable of carrying the load.

Before I proceed further, let me make it clear that I am here today not to dictate to bankers but to confer with them and to discuss our mutual problems. Let me emphasize that I meet with you not as a supervisory authority to lay down the law but as your partner in the banking business. You who pay the bill, whose employees we are, should realize that the Corporation's large financial stake makes its interest in the sound and successful operation of the banking system and of each

of your institutions not only the moral and paternalistic interest of a governmental agency, but also the hard, cold cash interest of a stakeholder in your business venture.

In its capacity as insurer of bank deposits the Federal Deposit Insurance Corporation has potential liabilities in excess of $19 billion. If the loss record I cited above is to recur, the Corporation's ultimate failure is inevitable. The legal provisions for the Corporation's capital, its revenue, and its backlog of emergency borrowing power, all were based on the assumption that the loss record for the future will be considerably less appalling. I am certain that every banker wants to keep at a minimum the cost to him of deposit insurance. Clearly then, the only way out of our dilemma lies in a mutual effort to strengthen the banking system to a point where it can withstand shocks which previously have cracked its foundations. It is inconceivable that our interest in improving the banking system should be at all at variance with the interests of each of you in maintaining a strong institution. Deposit insurance was not created for the purpose of collapsing one day. Neither did any of you enter the banking business with the idea of failing. Our aims are identical. I fail to see that the means to your individual ends can possibly be different in the long run from the means leading to the success of deposit insurance. Our mutuality of interests all along the line makes us all interested parties -- as I said before even partners -- in the business of banking.

The really good banker has no better friend than the Federal

Deposit Insurance Corporation and really good bankers recognize that fact. The intelligent banker looks at the broad picture and intelligent bankers realize that in the long run the interests of their separate institutions are inseparably linked to the interests of the whole banking system.

It would probably be appropriate at this time to report briefly upon our stewardship as managers of the Federal Deposit Insurance Corporation. The Corporation recently distributed to insured banks a report of its activities to December 31, 1936 and of its condition on that date. The surplus of the Corporation, representing an excess of income over total expenses and losses from the beginning of deposit insurance, was more than $54 million on December 31. Our income from assessments and from our investments now amounts to about $45 million a year. So far the income from our investment has more than covered both administrative expenses and deposit insurance losses and expenses.

To the general public the principal benefit of deposit insurance is the knowledge that a bank closing in a community no longer brings individual suffering or want, or the economic paralysis which formerly was a by-product of the lengthy process of liquidation. To this public I am proud to report that in the seventy-five cases where it was found necessary or desirable to place insured banks in receivership, between January 1, 1934 and December 31, 1936, the claims of each depositor up to a maximum of $5,000 were made almost immediately available. The 88,912 depositors of these banks, with total deposits of about $22 million, were protected to the extent of $18 million by insurance, off-set,

pledge of security, or preferment. All but 446, or one-half of one percent of the depositors, were fully protected against loss.

In an additional twenty-eight cases the Corporation thought it desirable to purchase or loan upon the assets of insured banks in difficulty rather than to let the institutions drift into receivership. In these cases the subject banks were merged with other insured institutions or were reorganized as new banks without interruption to the banking facilities of the towns in which they were located and without loss to any of the banks' depositors.

To you and to me, whose primary interest is preserving the soundness and good health of the financial structure, the most important of the Corporation's functions is its power to strengthen that structure, to minimize losses from bank failures, and to protect bank stockholders from assuming more than the ordinary risks of an entrepreneur. You or I would be foolish to believe that bank failures could be eradicated completely. There is nothing unique about banking institutions which will exempt them from susceptibility to the economic forces that control the destinies of other commercial enterprises. The banker deals preponderantly with funds belonging to others than stockholders, however, and for this reason there has come to be accepted as a legitimate function of government close supervision of the banker's exercise of his functions. By undertaking this supervisory duty the government assumes an obligation which it can not ignore, and I can state positively that it is the intention of the Directors of the Federal Deposit Insurance Corporation to exercise vigilantly the supervisory duties that have been delegated to

the Corporation. I am confident that the intelligent use of our authority will result not only in increased safety for depositors, but also in a greater degree of security for the investment of bank stockholders.

It is the importance of this supervisory function which leads me to urge careful appraisal of the present state of the banking system and intelligent planning for the future of that system. I should like now to discuss with you a few of the factors which will determine that future.

It would be quite impossible to cover at one sitting all of the contributory causes underlying the suspension and loss records which I cited earlier. The Board of Directors of the Federal Deposit Insurance Corporation is convinced, however, that chief among those causes were two against which an unremitting vigilance must be maintained if a repetition of the recent disastrous period is to be prevented. I refer, of course, to the indiscriminate granting of bank charters and to insufficiency of bank capital.

It is possible that the 30,000 banking institutions which existed in this country in 1920 were really needed, but the disappearance of half that number during the intervening years makes any such assumption far-fetched. In any event, the popularization of the automobile, the extension of paved roads, changes in financing habits, and similar progressive steps in our economic evolution, all have combined to minimize the need for maintaining banking facilities on a next-door basis. To these facts can be attributed the determination of the

Directors of the Corporation to approve only charters which can be justified on the basis of real need, which have reasonable earnings prospects, which are adequately capitalized for their probable volume of business, and which are to be managed by men of proven ability. We are inalterably opposed to the chartering of institutions which are economically unsound and likely to fail. Our efforts have received the hearty cooperation of most supervisory and chartering authorities. It is only reasonable to suppose, however, that there will be an increasing pressure for the creation of new banks as, with improving conditions, the banking business becomes more profitable and therefore more attractive for investors. Not only the danger of weakening the system but the desire to protect his own vested interests should lead every thinking banker to support governmental authorities in their drive to place bank chartering on a reasonable basis.

The mushroom growth of various types of thrift and credit institutions outside the commercial banking structure gives me much concern. I do not doubt that building and loan associations, credit unions, personal finance companies, and many other types of institution have a legitimate place and serve a useful purpose in many communities. I consider it imperative, however, that the creation and operations of these institutions be subject to as strict regulation as is the case with banks.

In South Carolina the existence of cooperative banks and cash depositories further complicates the financial structure. I find no fault with these institutions as repositories for the people's savings,

but I do believe that they make little or no contribution to the reconstruction of your banking system. A more orthodox and a more lasting solution to your problem could be accomplished, I believe, through a survey of the credit and banking needs of various parts of the State and a relocation of existing banking facilities on the basis of those needs.

Our efforts to strengthen banks can be seriously hindered or even defeated by a lax attitude with respect to the chartering and the competitive activities of financial institutions other than banks. I suggest, therefore, that it is to the advantage of bankers to campaign for the legal regulation of all types of thrift and loan organizations. These regulatory powers must be delegated to the officer or board that supervises banks in order to ensure a unified financial policy within a State.

When we succeed in preventing the chartering of unjustified banking institutions only half the battle is won. It remains to us to do all we can to insure a successful and prosperous existence for going institutions. We know from sad and bitter experience how fickle is that illusive attribute of value by which we measure the worth of our assets. We all hope fervently that values will never again become inflated to their 1928 and '29 levels and that they will never become deflated to the extent we experienced in the early 1930's. Values must fluctuate, though, in a competitive business system and since we all hope just as fervently for a continuation of that system our best bet, as bankers and bank supervisors, is to attempt to narrow the range of fluctuation

and to maintain a capital cushion sufficiently large to absorb unfavorable shifts in values up to a reasonable limit.

To my mind the most ominous trend in bank balance sheets during the past several decades has been the steady decrease in the ratio of capital funds to either assets or liabilities. The views of the Directors of the Federal Deposit Insurance Corporation on the question of adequate capital cushion are, I believe, quite generally known. Suffice it here to say that we are now doing and shall continue to do everything in our power to remedy capital deficiencies where they exist and to insist upon the building up and the maintenance of an adequate ratio of net sound capital to net sound assets in every bank for whose well being we are responsible.

Many banks, upon the strength of high liquidity and improved earnings, are now attempting to retire their outstanding preferred capital obligations. I should like to make clear the Corporation's attitude on this issue. In the first place liquidity is not now, has never been, and I hope never will be a proper measure of the adequacy of a bank's capital structure.

I realize as well as you that banks are of necessity now more liquid than they ever have been before and that there is less possibility of loss or depreciation developing in these liquid assets than would be the case with what we like to look back on as a normal asset distribution. We cannot assume, however, that this high liquidity will continue indefinitely. You bankers will be the first to admit that the present condition has its disadvantages and that the sensible

thing to do, insofar as capital is concerned, is to plan for future contingencies. We are determined to discourage any reduction in a bank's existing capital structure until the management of that bank has demonstrated not only its willingness but its ability to build and to maintain an adequate capitalization without outside help.

Now, as to the question of dividends. I realize fully that after the long period of famine just past, bank managers are eager to reward the patience of stockholders by resuming the payment of dividends. Rising operating income, appreciation of asset values, and profits taken in the investment portfolios look mighty good to you after so long a period of writing with red ink. I admit readily the right of the owners to a fair return on their investment, and no one will be more pleased than will I when reasonable dividends are the order of the day. I do insist, though, that the bank's condition must at all times be such as to justify beyond question the payment of any dividend. We must remember that the appreciation and profits at which we rejoice would not be available, had there not been depreciation of asset values during the early 1930's. If values fall once, they can fall again, and I believe that a major part of the present windfall should be reserved as corporate savings against just such a contingency.

Our examinations of banks have revealed hundreds of cases where worthless assets were allowed to accumulate while dividends were paid during the boom period with the result that when supervisors finally did force their elimination banks faced huge capital impairments or insolvency. The prescription I propose, then, is this: take de-

preciation regularly and losses as they occur; reserve out of profits a sizeable addition to capital account in anticipation of the next period of deflation; then, and then only, consider the distribution of dividends.

The greatest single drawback to effective action by a united front of bankers now is the diversity of controlling legislation among the several States. To my mind the National Association of Supervisors of State Banks could make no greater contribution to the well-being of our banking system than the development and enactment of a uniform banking code for State banks. Such a code, in combination with the uniform improvement of banking practices it is possible to accomplish through the Federal Deposit Insurance Corporation and uniform call and examination reports and procedure, will ensure to State banks the benefits of a unified working basis without endangering the future of the dual system.

In conclusion, I should like to express to Mr. E. A. Wayne, Chief Bank Examiner for the State of South Carolina, my appreciation for the splendid cooperation the Federal Deposit Insurance Corporation has received from his office. Mr. Wayne has a thorough understanding of the banking problems of your State and he is working untiringly towards their solution.

To the bankers of the State, too, we are grateful for the reception they have given deposit insurance and for the earnest effort they are putting forth to operate sound banks. I believe that you bankers are willing to apply to your own situations the fundamentals with which I have dealt this morning, and I am confident that you

will work fearlessly, both as individuals and through your professional associations, to develop in South Carolina banks that will deserve the trust of citizens of the State and that will contribute at least their share to the enduring health and soundness of the nationwide system.

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