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"RESPONSIBILITIES OF TRUSTEES OF MUTUAL SAVINGS BANKS"

BEFORE THE
SAVINGS BANKS ASSOCIATION OF MAINE

PORTLAND, MAINE
MAY 17, 1978

I AM VERY PLEASED TO HAVE THE OPPORTUNITY TO SPEAK TO THE MAINE SAVINGS BANKERS. IN RECENT YEARS BANKING IN THE STATE OF MAINE HAS MOVED TO THE FRONT RANK OF THOSE CREATING NEW SERVICES FOR THE CONSUMER AND CHANGING THE FACE OF BANKING TO MEET THE DEMANDS OF A NEW ERA. TODAY I WOULD LIKE TO TALK WITH YOU ABOUT THE ROLE OF THE BANK TRUSTEE IN THIS CHANGING WORLD. IN PARTICULAR, I WOULD LIKE TO EXPLORE SOME OF THE THINGS THAT A REGULATOR EXPECTS OF A BANK TRUSTEE -- AND BY IMPLICATION WHAT THINGS BANK TRUSTEES SHOULD CONSIDER WHEN THEY RECOMMEND A NEW MEMBER FOR THEIR BOARD.

THE SINGLE MOST IMPORTANT THING TO BE CONSIDERED ABOUT THE PROSPECTIVE TRUSTEE IS THE CHARACTER OF THE MAN HIMSELF. CHARACTER IS A HARD THING TO DEFINE, AND EVEN HARDER TO JUDGE. ARISTOTLE OBSERVED, "CHARACTER IS THAT WHICH REVEALS MORAL PURPOSE, EXPOSING THE CLASS OF THINGS A MAN CHOOSES OR AVOIDS." HIS DEFINITION IS USEFUL IN THIS CONTEXT BECAUSE OF THE SPECIAL POSITION THAT A BANK TRUSTEE HOLDS.

THE BOARD OF TRUSTEES MAKES THE BASIC DECISIONS THAT DETERMINE THE CHARACTER OF A SAVINGS BANK AND ITS ROLE IN THE COMMUNITY. THE BOARD MUST ESTABLISH INTELLIGENT, PRUDENT POLICIES RELATING TO LOANS, INVESTMENTS, OPERATIONS AND PERSONNEL: AND IT MUST SEE THAT THEY ARE CARRIED OUT. HOW THE BANK CONDUCTS ITS BUSINESS CAN MAKE A VERY BIG DIFFERENCE TO THE LIVES OF MANY PEOPLE, EVEN WHEN THOSE PEOPLE ARE NOT INVOLVED DIRECTLY IN ANY SPECIFIC DECISION. WE NEED MEN WHO UNDERSTAND THIS. THEY MUST BE WILLING NOT ONLY TO ACCEPT THEIR FULL FIDUCIARY RESPONSIBILITIES, AND TO CONDUCT THEIR OWN AFFAIRS WITH THE BANK ACCORDING TO THE STRICTEST STANDARDS OF PERSONAL INTEGRITY, BUT THEY ALSO MUST BE WILLING TO DEVOTE THEMSELVES TO THE NEEDS OF THE PUBLIC WHERE THEY LIVE AND WORK.

LET ME BEGIN BY GOING OVER SOME GROUND THAT YOU ARE FAMILIAR WITH -- FROM THE STANDPOINT OF A REGULATOR. OF COURSE, A TRUSTEE ALWAYS OWES HIS PRIMARY LOYALTY TO THE BANK AND ITS SHAREHOLDERS. THE HEART OF HIS JOB IS TO MAKE SURE THAT MANAGEMENT CARRIES OUT THE POLICIES ESTABLISHED BY THE BOARD

AND CONDUCTS THE BANK'S AFFAIRS PROPERLY -- THAT THE SAFETY AND SOUNDNESS OF THE BANK IS MAINTAINED, THAT IT OPERATES PROFITABLY OVER A LONG PERIOD, THAT ITS CAPITAL REMAINS UNIMPAIRED, AND THAT IT MEETS THE NEEDS AND CONVENIENCE OF PERSONS IN ITS TRADE AREA. IN THESE MATTERS BANK REGULATORS AND BANK SHAREHOLDERS SEE EYE TO EYE.

PROBABLY THE MOST IMPORTANT PART OF THE TRUSTEE'S JOB, THEN, IS TO CHOOSE THE MANAGERS OF THE BANK. TRUSTEES MUST JUDGE THEIR CHARACTER, EVALUATE THEIR EXPERTISE, AND REVIEW THEIR PERFORMANCE ON AN ON-GOING BASIS. THIS RESPONSIBILITY GOES BEYOND THE NEGATIVE SIDE OF THE JOB -- THAT IS, OF DECIDING WHETHER TO FIRE A MANAGER. IT ALSO INVOLVES SEEING THAT MANAGEMENT MORALE REMAINS HIGH. BANK OFFICERS MUST HAVE A GOOD ENVIRONMENT TO WORK IN, AND MUST HAVE THE OPPORTUNITY TO KEEP ABREAST OF DEVELOPMENTS IN THEIR VARIOUS FIELDS. I WANT TO STRESS THIS ASPECT OF A BANK TRUSTEE'S DUTIES BECAUSE IT IS FUNDAMENTAL, NOT ONLY TO THE AFFAIRS OF THE BANK, BUT ALSO TO OUR WHOLE APPROACH TO REGULATION. THAT APPROACH IS BASED ON

SELF-CONTROL AND SELF-REGULATION.

THE BOARD ALSO MUST ESTABLISH THE BANK'S CHARACTER AS AN ENTERPRISE. IT DETERMINES THE RANGE OF SERVICES THAT THE BANK WILL OFFER, THE TYPES OF LOANS AND THE CONDITIONS UNDER WHICH THEY WILL BE MADE, THE KINDS OF INVESTMENTS THE BANK WILL FOCUS ON, AND THE GEOGRAPHIC MARKETS IT WILL ENTER. TO DO THIS TRUSTEES MUST STAY ON TOP OF DEVELOPMENTS -- SUCH AS THE NEW CHECKING ACCOUNT POWERS THAT MAINE SAVINGS BANKS NOW ENJOY, THE ADVENT OF NOW ACCOUNTS, AND THE PROSPECTS FOR CHANGE IN REG. Q -- THAT MIGHT AFFECT THEIR INDUSTRY. THEY SHOULD BE SENSITIVE ALSO TO GENERAL ECONOMIC AND SOCIAL CHANGES IN THE COMMUNITIES THAT THEIR BANKS SERVE.

IN THIS CONNECTION PLEASE REMEMBER THAT BANKS MUST CONCENTRATE ON PARTICULAR AREAS OF SPECIALIZATION OR EXPERTISE. MANY PEOPLE SEEM TO LOSE SIGHT OF THIS FACT. SOMETIMES BANKS VENTURE TOO QUICKLY INTO AREAS THAT THEY KNOW COMPARATIVELY LITTLE ABOUT, SUCH AS CREDIT CARD SERVICES OR EFT. WHEN BANKS

TRY TO BE ALL THINGS TO ALL MEN, THE RESULTS CAN BE UNPLEASANT AND COSTLY FOR EVERYONE CONCERNED.

TRUSTEES ALSO SET THE OPERATING POLICIES FOR THEIR BANK. THESE POLICIES SHOULD BE EXPLICIT AND BE STATED IN WRITING TO ASSURE CONSISTENCY AND FAIRNESS IN CUSTOMER DEALINGS. THEY ALSO HELP TO IMPROVE THE MORALE OF OFFICERS AND EMPLOYEES. A CLEAR STATEMENT MAKES IT EASIER FOR BANK EMPLOYEES TO UNDERSTAND THEIR OWN TASKS AND TO KNOW WHAT THEY CAN EXPECT FROM OTHERS. IT ALSO CALLS ATTENTION TO ANY DEVIATION FROM THE STANDARDS. THIS CAN MAKE THE REVIEWING PROCESS MUCH MORE STRAIGHTFORWARD AND EFFICIENT, NOT ONLY FOR THE BOARD ITSELF, BUT FOR ANY OUTSIDE AUDITORS, AND FOR BANK EXAMINERS.

FOR EXAMPLE, TRUSTEES SHOULD ESTABLISH INTERNAL AUDITING POLICIES AND PROGRAMS, AND SEE THAT THEY ARE CARRIED OUT. IT IS A GOOD IDEA FOR THE TRUSTEES TO CREATE FORMAL AUDIT-AND-EXAMINATION COMMITTEES TO OVERSEE THESE PROGRAMS AT THE HIGHEST LEVEL. SIMILARLY, IT IS A GOOD IDEA TO CREATE COMMITTEES WITH SPECIFIC

RESPONSIBILITY FOR REVIEWING LOANS AND INVESTMENTS.

IN ADDITION, BANK TRUSTEES SHOULD REVIEW THE SPECIFIC DECISIONS OF MANAGEMENT. THIS ASPECT OF THE TRUSTEE'S JOB MAY BE THE MOST DIFFICULT OF ALL. IT REQUIRES HIM TO HAVE A COMPREHENSIVE, ON-GOING UNDERSTANDING OF THE BANK'S AFFAIRS ALTHOUGH HE CANNOT DIRECT THE DAY-TO-DAY OPERATIONS. IT ALSO REQUIRES HIM TO BE WILLING TO BRING THE FULL POWER OF HIS JUDGMENT TO BEAR ON EACH DECISION, AND, IF NECESSARY, TO DIS-AGREE WITH HIS COLLEAGUES ON THE RECORD.

NO TRUSTEE CAN AFFORD TO RUBBER-STAMP THE DECISIONS OF AN INDIVIDUAL OR GROUP IN ANY OF THESE RESPECTS. FOR ONE THING, IT IS DANGEROUS FOR THE BANK: MOST BANK FAILURES PROCEED FROM A BREAKDOWN IN JUST THIS SORT OF SUPERVISION. SINCE 1960 THE FDIC HAS HANDLED SLIGHTLY MORE THAN 100 BANK FAILURES, AND IN ABOUT 60 PERCENT OF THE CASES WE HAVE SEEN THAT INSIDER ABUSE HAS PLAYED A SIGNIFICANT PART. WE SHALL DISCUSS THIS ASPECT LATER. ANOTHER 25 PERCENT RESULTED FROM BREACHES OF FIDELITY,

SUCH AS EMBEZZLEMENT. SO YOU SEE THAT LEAVES ONLY ABOUT 15 TO 20 PERCENT FOR ERRORS IN JUDGMENT. THESE FIGURES BOTHER ME AND THEY PROBABLY DO YOU TOO. AS TRUSTEES, YOU ARE IN A POSITION TO CONTROL THESE PROBLEMS, ESPECIALLY THE 83 PERCENT RESULTING FROM INSIDER TRANSACTIONS AND BREACHES OF FIDELITY.

FOR ANOTHER, RUBBER-STAMPING IS DANGEROUS FOR THE TRUSTEES THEMSELVES. THE FDIC AS RECEIVER IS UNDER A STATUTORY OBLIGATION TO SUE BANK TRUSTEES OR DIRECTORS WHEN THEIR NEGLIGENCE RESULTS IN THE BANK'S FAILURE. SINCE 1960 WE HAVE DONE SO IN ABOUT 40 PERCENT OF THE FAILURES. AS A PURELY PRACTICAL MATTER, THEN, A BANK TRUSTEE MUST PAY CAREFUL ATTENTION TO THE BANK'S AFFAIRS, OR BE PREPARED TO DEFEND HIS CONDUCT IN COURT.

HAVING SAID THAT, I WOULD LIKE TO STRESS THAT THERE IS A DIFFERENCE -- A VERY IMPORTANT DIFFERENCE -- BETWEEN OVERSIGHT AND MEDDLING. THE WORKING RELATIONSHIPS AMONG THE TRUSTEES AND THE OFFICERS INEVITABLY WILL REFLECT THE CHARACTER OF THE PEOPLE WHO SIT ON THE BOARD, THEIR KNOWLEDGE, AND THE CONFIDENCE THAT

THEY PLACE IN MANAGEMENT. IT IS BENEFICIAL TO GIVE AS MUCH FREEDOM AS POSSIBLE IN DECISION MAKING NEVERTHELESS, THERE ARE LIMITS TO MANAGEMENT FREEDOM, AND THE TRUSTEES WHO REPRESENT SHAREHOLDERS' INTERESTS MUST ALWAYS KEEP THOSE LIMITS IN MIND.

THE RELATIONSHIP BETWEEN TRUSTEES AND MANAGEMENT SHOULD NOT BE A HOSTILE ONE, BUT RATHER THAT OF A FRIENDLY CRITIC. IT IS A COOPERATIVE WORKING ARRANGEMENT. MANAGEMENT IS REPRESENTED ON THE BOARD, AND PROPERLY SO, FOR IT BRINGS A SPECIAL EXPERTISE TO BEAR ON BANKING MATTERS. THE MANAGING OFFICERS KNOW -- OR OUGHT TO KNOW -- THE STRENGTHS AND WEAKNESSES OF EACH FUNCTIONAL UNIT. ACCORDINGLY, WHEN OTHER TRUSTEES SUGGEST NEW POLICY DIRECTIONS, OR PROPOSE CHANGES IN EXISTING ARRANGEMENTS, IT IS THE MANAGEMENT REPRESENTATIVES WHO CAN EXPLAIN WHAT THE PRACTICAL EFFECTS WOULD BE FOR THE BANK. MOREOVER, IF THE TOP OFFICERS PARTICIPATE IN THE FINAL DECISION-MAKING PROCESS, THEY CAN UNDERSTAND THE POINT OF VIEW OF THE SHAREHOLDER REPRESENTATIVES MUCH BETTER. IT AVOIDS MAKING ADVERSARIES OUT OF THOSE WHO

ESTABLISH POLICY AND THOSE WHO CARRY IT OUT.

THE OUTSIDE TRUSTEES ALSO HAVE AN OBLIGATION TO UNDERSTAND THE BANK'S AFFAIRS. THEY MUST BE PREPARED TO DISCUSS THOSE AFFAIRS INTELLIGENTLY WITH MANAGEMENT. THEY MAY NOT HAVE TO KNOW THE NUTS AND BOLTS OF EVERY OPERATING UNIT IN THE BANK, BUT THEY SHOULD HAVE A SOLID UNDERSTANDING OF WHAT EACH UNIT DOES, AND KNOW HOW IT FITS TOGETHER WITH THE OTHER UNITS. THEY SHOULD HAVE A CLEAR IDEA OF WHAT ISSUES NEED TO BE EXPLORED IN ORDER TO REACH POLICY DECISIONS AND WHAT INFORMATION THEY WILL NEED FROM MANAGEMENT TO DO SO. FURTHERMORE, TRUSTEES MUST ENCOURAGE MANAGEMENT TO PRESENT BACKGROUND DATA COMPLETELY, AND NOT TO LEAVE OUT UNCOMFORTABLE FACTS. FOR THEIR OWN PART, TRUSTEES SHOULD STAY UP-TO-DATE ON THE BIG ISSUES THAT ARE IMPORTANT TO THE BANK'S FUTURE. I RECOMMEND THAT THEY READ ONE GOOD BANKING PUBLICATION EACH MONTH AS A BARE MINIMUM -- SUCH AS SAVINGS BANK JOURNAL , BANK ADMINISTRATION, OR BANKING -- AND EVEN BETTER SHOULD READ THE AMERICAN BANKER EVERY DAY. PERHAPS READING ACTIVITIES COULD BE SPLIT UP AMONG TRUSTEES. BUT IT IS NOT ENOUGH TO READ JUST THE

WALL STREET JOURNAL, WHICH IS NOT A SUBSTITUTE FOR A TRADE JOURNAL. IN ADDITION, TRUSTEES SHOULD BE CERTAIN TO STAY ABREAST OF CURRENT WORLD AND LOCAL AFFAIRS.

WHEN BANK TRUSTEES DO THEIR JOBS AS THEY OUGHT TO, THEY PERFORM SELF-REGULATORY SERVICES THAT BENEFIT BOTH THE BANK ITSELF AND THE PUBLIC AT LARGE. IF OUR NORMAL MECHANISMS FOR SELF-DISCIPLINE ALWAYS WORKED PROPERLY AND EFFECTIVELY, AS THEY USUALLY DO, WE WOULD NEED ONLY A MINIMAL AMOUNT OF EXTERNAL OR GOVERNMENTAL CONTROLS OVER BUSINESS AFFAIRS OR BUSINESS DECISIONS. COSTS THEN WOULD BE REDUCED BOTH TO THE BANKING SYSTEM AND TO THE NATION AS A WHOLE. FOR THESE REASONS, THE FDIC HAS SOUGHT TO STRENGTHEN THE BOARD OF TRUSTEES AS A SELF-REGULATORY MECHANISM. IN SOME WAYS, I ADMIT, OUR ACTIONS HAVE IMPOSED ADDITIONAL RESPONSIBILITIES ON BANK BOARDS. ONE OF OUR REGULATIONS -- THE ONE DEALING WITH INSIDER TRANSACTIONS -- MAY EVEN LEAD TO A FEW RESIGNATIONS AROUND THE COUNTRY. NEVERTHELESS, I BELIEVE THAT RELYING ON THE STRENGTHS OF THE BOARD OF TRUSTEES IS BETTER THAN ANY OTHER STRATEGY FOR GUIDING THE BANKING SYSTEM. NOT

ONLY IS IT LESS COSTLY, BUT IT ALSO DRAWS UPON OUR FREE MARKET TRADITION OF PRIVATE RESPONSIBILITY FOR PRIVATE BUSINESS DECISIONS.

OUR APPROACH TO INSIDER ABUSES ILLUSTRATES MY POINT. WHEN THE FIRST BILLION-DOLLAR BANK FAILED -- THE U. S. NATIONAL BANK IN SAN DIEGO -- WE BEGAN TO ANALYZE OUR PROTECTIONS AGAINST INSIDER ABUSES. WE REALIZED THAT WE NEEDED TO TAKE FURTHER ACTION. BUT WE WERE AWARE ALSO THAT INSIDER TRANSACTIONS ARE NOT BAD PER SE. TO THE CONTRARY, TRANSACTIONS WITH INSIDERS AND THEIR RELATED INTERESTS ARE USUALLY IN THE BANK'S BEST INTEREST; IN MANY CASES -- PARTICULARLY IN SMALL OR RURAL COMMUNITIES -- SUCH TRANSACTIONS ARE DIFFICULT TO AVOID.

IN LIGHT OF THESE CIRCUMSTANCES, WE HAVE REFUSED TO PUT ANY FLAT BAN ON INSIDER TRANSACTIONS. INSTEAD, WE RELY ON THE TWO MAJOR SAFEGUARDS WE ALREADY HAVE: SELF-DISCIPLINE BY THE BOARD IN SUPERVISING THE BANK'S ACTIVITIES, AND REGULATORY OVERSIGHT THROUGH THE BANK EXAMINATION PROCESS. WE REQUIRE THE

BOARD TO CONDUCT A SERIOUS AND IN-DEPTH REVIEW OF INSIDER TRANSACTIONS. THE TRUSTEES MUST REVIEW AND SPECIFICALLY APPROVE ANY TRANSACTIONS INVOLVING THE BANK AND AN INSIDER WHEN THE TRANSACTION CONCERNS ASSETS OR SERVICES THAT HAVE A FAIR MARKET VALUE ABOVE A CERTAIN AMOUNT, WHICH VARIES WITH THE SIZE OF THE BANK. THE BANK MUST ALSO KEEP CERTAIN INFORMATION ON FILE, INCLUDING A RECORD OF THE DISSENTING VOTES CAST BY TRUSTEES.

ONE OF THE ADVANTAGES OF THIS APPROACH IS THAT IT DOES NOT FORCE THE BANK TO KEEP ANY NEW KINDS OF RECORDS OR TO ESTABLISH NEW FILES. THE MINUTES OF BOARD MEETINGS CAN PROVIDE AN APPROPRIATE LISTING OF ALL INSIDER TRANSACTIONS, WHILE THE BANK'S REGULAR FILING SYSTEM FUNCTIONS AS THE DEPOSITORY FOR THE INFORMATION. JUST KEEPING THE RECORDS AS REQUIRED BY THE REGULATION IS NOT ENOUGH, THOUGH. WHEN WE BELIEVE A BOARD IS NOT LIVING UP TO ALL ITS DUTIES, WE WILL TAKE WHATEVER ACTION WE BELIEVE IS APPROPRIATE.

TO STRENGTHEN THIS SELF-REGULATORY PROCESS, WE ALSO HAVE INCREASED THE NUMBER OF TIMES THAT WE MEET WITH EACH BANK BOARD. IN THE PAST, AS YOU KNOW, WE HAVE MAINTAINED THAT EACH TRUSTEE SHOULD REVIEW HIS BANK'S EXAMINATION REPORT, AND WE RELIED ON HIS DOING SO. WHEN WE FOUND ANY MAJOR PROBLEMS IN THE EXAMINATION, OR WHEN WE DISCOVERED ANY ADVERSE TRENDS, WE MET WITH THE TRUSTEES TO REVIEW THE REPORT. NOW, HOWEVER, WE MEET WITH THE TRUSTEES AFTER EVERY EXAMINATION, AND GO OVER THE REPORT IN SOME DEPTH, EVEN IF THERE ARE NO MAJOR PROBLEMS.

WE EXPECT THAT OUR NEW APPROACH WILL DO A LOT OF GOOD. THE POST-EXAMINATION CONFERENCES GIVE DILIGENT AND ACTIVE TRUSTEES A CHANCE TO BECOME MORE AWARE OF WHAT IS GOING ON IN THE BANK, AND TO RECOGNIZE WHAT THEY SHOULD BE DOING. THEY CAN ASK QUESTIONS ABOUT THE BANK'S OPERATIONS AND ABOUT ANY PROBLEM AREAS THAT HAVE TURNED UP. EVEN MORE IMPORTANTLY, IT CAN HELP STIMULATE A TRUSTEE WHO IS DOING ONLY A MEDIOCRE JOB. UNLESS HE PURSUES THE ISSUES THAT THE BANK RAISED, HE COULD FIND IT HARD TO SHOW THAT HE HAD FULFILLED HIS FIDUCIARY DUTIES OF "GOOD FAITH" AND

"REASONABLE CARE." IN THE END, HE COULD FIND HIMSELF EXPOSED TO A SUBSTANTIAL LIABILITY IF ANYTHING GOES WRONG.

THERE IS A SECOND ASPECT TO THE JOB OF BANK TRUSTEE THAT IS GROWING MORE AND MORE SIGNIFICANT: THAT IS, BRINGING THE BANK'S ACTIVITIES INTO HARMONY WITH THE NEEDS OF ITS LOCAL COMMUNITY. THE CONCEPT OF "GOOD CORPORATE CITIZENSHIP" IS NOT NEW; THE "CONVENIENCE AND NEEDS" TEST IN THE CHARTERING AND BRANCHING LAWS IS AN EARLY EXAMPLE OF THIS SORT OF THING. RECENTLY, HOWEVER, OUR SOCIETY HAS GROWN MORE AWARE OF BANKING'S SOCIAL EFFECTS. PEOPLE ARE STARTING TO ASK BANKS TO SERVE THE "CONVENIENCE AND NEEDS" OF THE COMMUNITY IN AN EXPANDED SENSE -- NOT MERELY TO RESPOND TO DEMANDS FOR SERVICE, BUT TO HELP CREATE THE SOCIAL AND ECONOMIC CONDITIONS IN WHICH THE COMMUNITY CAN FLOURISH.

THERE ARE SEVERAL REASONS WHY THE TREND IS DEVELOPING NOW. ONE OF THEM IS THAT CONGRESS AND THE PUBLIC HAVE IDENTIFIED A WHOLE NEW AGENDA OF SOCIAL PROBLEMS THAT THEY BELIEVE NEED TO

BE DEALT WITH. FOR EXAMPLE, THE COMMUNITY REINVESTMENT ACT OF 1977 IS DESIGNED TO PRESERVE A RESERVOIR OF CREDIT IN LOCAL COMMUNITIES. CONGRESS HAS CONCLUDED THAT BANKS SOMETIMES LEND OR USE FUNDS OUT OF THE AREA WHERE THEY WERE DEPOSITED, ESPECIALLY IN THE CASE OF LOWER-INCOME COMMUNITIES. IT IS PERSUADED THAT IN SUCH CASES, THE LOCAL COMMUNITIES CAN SUFFER GRAVE PROBLEMS FOR WANT OF CAPITAL. ACCORDINGLY, THIS ACT PROVIDES THAT WHENEVER A FEDERAL AGENCY EXAMINES AN INSTITUTION, THE AGENCY MUST DETERMINE HOW WELL THE INSTITUTION HAS BEEN MEETING THE NEED FOR CREDIT IN ITS LOCAL COMMUNITY -- AND IN PARTICULAR, THE CREDIT NEEDS OF LOWER AND MODERATE-INCOME PEOPLE. MOREOVER, WHEN ANY REGULATED INSTITUTION APPLIES FOR PERMISSION TO ESTABLISH A NEW BRANCH, TO MERGE WITH ANOTHER INSTITUTION, OR TO EXPAND IN OTHER WAYS SET FORTH IN THE ACT, THE FEDERAL AUTHORITIES MUST TAKE THE APPLICANT'S CREDIT-GRANTING RECORD INTO ACCOUNT.

WE CAN SEE THIS CURRENT OF SOCIAL RESPONSIBILITY RUNNING THROUGH THE BANKING LEGISLATION OF THE PAST SEVERAL YEARS.

IT IS EVIDENT IN MANY AREAS -- NOT JUST IN REDLINING, BUT ALSO IN TRUTH-IN-LENDING PRACTICES, CREDIT EVALUATION PROCEDURES, AND PRIVACY. AT ITS BEST, THIS IS A VERY DESIRABLE TREND. IT CAN ENCOURAGE BANKERS TO HELP UPGRADE THE STANDARD OF LIVING FOR EVERYONE IN THEIR COMMUNITIES. IT ALSO CAN BE PROFITABLE FOR BANKERS, WHO STAND TO GAIN MORE BUSINESS AS THE FINANCIAL HEALTH OF THE COMMUNITY IMPROVES. BUT THERE IS ALSO A DARKER SIDE TO THE TREND. AT ITS WORST, IT CAN DEGENERATE INTO A HOSTILITY TO BUSINESS THAT CAN GRAVELY INJURE THE PROSPECTS FOR SOCIAL GAINS. BY REMOVING INCENTIVES TO MAKE LONGER-TERM INVESTMENTS IN LOCAL AREAS, IT PREVENTS OUR NATION'S STRONGEST SECTOR, THE PRIVATE ONE, FROM GRAPPLING WITH OUR BIGGEST PROBLEMS, AND GIVES THE JOB TO THE GOVERNMENT INSTEAD.

UNFORTUNATELY, THESE NEW PUBLIC INITIATIVES CARRY CERTAIN COSTS FOR THE TAXPAYER AND THE CONSUMER. THEY ENTAIL A GREAT DEAL OF PAPERWORK AND RED TAPE. THEY CREATE NEW CONDITIONS OF LIABILITY FOR THE BANK, AND POSSIBLY FOR ITS TRUSTEES, WHICH INCREASE THE BANK'S OVERALL RISK AND THUS ITS COST OF DOING BUSINESS.

MUCH MORE SIGNIFICANTLY, THE NEW INITIATIVES ALSO CAN AFFECT THE COMPETITIVE ENVIRONMENT. THEY TEND TO STANDARDIZE THE BEHAVIOR OF BANKS BY REDUCING THE POSSIBILITY OF DIVERSITY AND SPECIALIZATION. AS WE HAVE SEEN IN THE CONTEXT OF EFT SERVICES, GOVERNMENT CONTROLS CAN EVEN REDUCE THE ABILITY OF BANKS TO ADAPT TO NEW TECHNOLOGY. THE OVERALL RESULT IS TO ENCOURAGE A GENERAL HOMOGENIZATION IN THE KINDS OF SERVICES THAT BANKS PROVIDE, AND A GENERAL REDUCTION IN ANY INDIVIDUAL CONSUMER'S POWER TO CHOOSE THE SERVICES THAT SERVE HIS INTERESTS THE BEST. ULTIMATELY THIS SORT OF THING LEADS TO "EXPORTING" CONSUMER SERVICES TO AN INDUSTRY WHERE REGULATORY RESTRICTIONS ARE NOT SO GREAT.

THE QUESTION REMAINS HOW BANK TRUSTEES SHOULD RESPOND TO THIS NEW TREND TOWARD SOCIAL ACCOUNTABILITY. BANKERS REALIZE THAT A BANK CHARTER IS CONFERRED BY THE PUBLIC, AND THAT THE BANK OWES CERTAIN OBLIGATIONS TO ITS COMMUNITY. BUT IN THE COMPETITIVE ENVIRONMENT OF DAILY ACTIVITIES THEY SOMETIMES OVERLOOK IT. IN THE YEARS TO COME, TRUSTEES WILL HAVE TO ESTABLISH A MORE PER-

SONAL COMMUNICATION WITH PEOPLE WHO LIVE IN THE NEIGHBORHOOD, AND WILL HAVE TO DEVELOP A GREATER UNDERSTANDING OF THE CIRCUMSTANCES IN WHICH THEY LIVE. OFTEN TRUSTEES WILL HAVE TO GO MUCH MORE THAN HALFWAY TO ESTABLISH THESE CHANNELS OF COMMUNICATION.

BUT IF TRUSTEES DO MAKE THE EXTRA EFFORT, THE RESULTS CAN BE VERY PRODUCTIVE. NO ONE IS IN A BETTER POSITION, OR HAS GREATER EXPERTISE, TO UNDERSTAND THE NATURE OF A COMMUNITY'S ECONOMIC PROBLEMS, AND NO ONE KNOWS BETTER HOW TO DEAL WITH THOSE PROBLEMS. THERE IS EVERY REASON TO BELIEVE THAT THE EXTRA EFFORT MAKES SOUND BUSINESS SENSE. I AM NOT SUGGESTING THAT BANKS SHOULD MAKE UNSOUND LOANS MERELY TO FULFILL SOME ABSTRACT SOCIAL POLICY. THAT WOULD BE FOOLHARDY -- AND IN THE LONG RUN IT WOULD BE COUNTERPRODUCTIVE. BUT THERE IS PLENTY OF ROOM FOR BANKERS TO SEARCH OUT OPPORTUNITIES TO MAKE SOUND LOANS IN THEIR COMMUNITIES, AND TO HELP PROMOTE COMMUNITY CONDITIONS THAT WILL PRESERVE THE QUALITY OF THESE LOANS.

IDEALLY, THIS IS WHAT THE PROFIT MOTIVE IS DESIGNED TO ACHIEVE. A BANK THAT MATCHES ITS BUSINESS OBJECTIVES WITH COMMUNITY NEEDS WILL FIND ITS BUSINESS GROWING: CONVERSELY A HEALTHY FINANCIAL INDUSTRY IS A GREAT ASSET TO A COMMUNITY, AND HELPS TO CHANNEL ITS GROWTH ALONG PRODUCTIVE LINES. THE BANK THAT TAKES THE INITIATIVE IN PURSUING THIS SORT OF POLICY WILL ALSO REAP MANY INTANGIBLE BENEFITS THROUGH THE GOOD WILL IT GENERATES, THROUGH ITS IMPROVED STANDING IN THE EYES OF THE PUBLIC, AND THROUGH EXPANDED ECONOMIC ACTIVITY IN ITS TRADE TERRITORY.

ON A SIMILAR PRACTICAL LEVEL, TRUSTEES SHOULD BE AWARE THAT THEY CAN HELP FORESTALL THE DEMAND FOR MORE EXTENSIVE GOVERNMENT REGULATION IF THEY VOLUNTARILY ADOPT POLICIES THAT ANTICIPATE SOCIAL DEMANDS. THE BOARD'S ROLE AS A SELF-REGULATOR IN THIS SENSE IS ONLY NOW COMING TO BE FULLY APPRECIATED. IN MY JUDGMENT IT IS ESSENTIAL FOR TRUSTEES TO WORK TOGETHER WITH REPRESENTATIVES OF THE PUBLIC -- BOTH REGULATORS AND COMMUNITY SPOKESMEN -- AS AN ALTERNATIVE TO GOVERNMENTAL CONTROL.

THE FACT THAT YOU AS BANK TRUSTEES ARE HERE TODAY SHOWS THAT YOU ALREADY ARE SENSITIVE TO THE CHANGING ENVIRONMENT OF BANKING, AND ARE ALREADY AWARE OF YOUR OBLIGATIONS AND OPPORTUNITIES. I WOULD SUGGEST THAT YOU SHOULD INSIST UPON THE FOLLOWING STANDARDS OF BEHAVIOR, NOT ONLY FOR YOURSELVES, BUT ALSO ON THE PART OF OTHER TRUSTEES SITTING ON YOUR BOARDS:

YOU SHOULD MAKE SURE THAT YOU ARE WELL INFORMED ABOUT YOUR BANK'S AFFAIRS AND HELP POLICE THEM. YOU SHOULD INSIST ON GETTING ACCURATE INFORMATION TO GIVE YOU A DETAILED PICTURE OF WHAT IS GOING ON IN YOUR BANK. YOU SHOULD STUDY THOROUGHLY THE MATERIAL THAT MANAGEMENT PRESENTS TO YOU BEFORE YOU GO INTO BOARD MEETINGS, AND YOU SHOULD DISCUSS IT WITH OTHER TRUSTEES AND WITH THE BANK'S SENIOR OFFICERS. AS TO EXTERNAL MATTERS, YOU SHOULD TAKE AN ACTIVE INTEREST IN THE AFFAIRS OF YOUR COMMUNITY AND OF THE WORLD AT LARGE. FINALLY YOU SHOULD SEE THAT THE BANK MAINTAINS ADEQUATE SYSTEMS FOR INTERNAL AUDITS AND EXAMINATIONS, AND THAT THE BOARD HAS DIRECT OVERSIGHT CAPABILITY AS A RESULT OF THESE SYSTEMS.

YOU SHOULD EXERCISE YOUR INDEPENDENT JUDGMENT AND EXPRESS IT SO THAT OTHER TRUSTEES CAN BENEFIT FROM YOUR CONCLUSIONS. YOU SHOULD BE PREPARED TO GIVE THE OTHER BOARD MEMBERS THE BENEFIT OF YOUR OWN SPECIAL KNOWLEDGE OR EXPERTISE. YOU SHOULD MAKE SURE THAT YOU UNDERSTAND REASONS FOR ADOPTING ANY GIVEN POLICY AND THAT YOU RECOGNIZE THE CONSEQUENCES THAT FOLLOW FROM IT. WHERE YOU DO NOT IN GOOD CONSCIENCE AGREE WITH THE MAJORITY DECISION, YOU SHOULD RECORD YOUR DISSENT AND YOUR REASONS FOR IT. MAKING A RECORD IS ESPECIALLY IMPORTANT BECAUSE A CLEAR UNDERSTANDING OF DISSENTING POSITIONS CAN BE VERY HELPFUL IN THE PERIODIC REAPPRAISALS OF BANK POLICY.

YOU MUST TAKE SPECIAL CARE TO RESPECT YOUR FIDUCIARY RELATIONSHIP TO YOUR BANK IN YOUR FINANCIAL DEALINGS WITH IT. YOU SHOULD EXERCISE EXTREME CAUTION IN THESE MATTERS AND RESOLVE CLOSE QUESTIONS IN FAVOR OF THE BANK. IF YOU HAVE SPECIAL KNOWLEDGE ABOUT SOMETHING THE BOARD IS CONSIDERING, YOU SHOULD BE SURE TO CONTRIBUTE YOUR

KNOWLEDGE IF YOU CAN. IF THE INFORMATION IS PRIVILEGED FOR SOME REASON, AND YOU ARE HONOR-BOUND NOT TO REVEAL IT, YOU SHOULD REMOVE YOURSELF ENTIRELY FROM THE DISCUSSION, AND RECORD YOUR REASON FOR DOING SO.

YOU SHOULD TRY TO DETERMINE THE OVERALL SOCIAL AND ECONOMIC NEEDS OF YOUR BANK'S COMMUNITY AND MAKE EVERY EFFORT TO ATTUNE YOUR BANK'S POLICIES AND SERVICES TO THEM.

YOU SHOULD TRY TO SEE THAT YOUR BANK HELPS PROMOTE THE COMMUNITY'S ECONOMIC GROWTH IN A BALANCED FASHION. YOU SHOULD ALSO RESPOND TO COMMUNITY DEMANDS FOR PARTICULAR SERVICES WHERE YOU CAN, AND YOU SHOULD HELP TO BRING LATENT DEMAND TO THE SURFACE.

FINALLY, YOU SHOULD BE AWARE OF YOUR POSITION AS COMMUNITY LEADERS. YOU MUST RECOGNIZE THAT THE WAY YOUR BANK CONDUCTS ITS BUSINESS, AND THE WAY YOU HANDLE YOUR OWN BUSINESS AFFAIRS, CAN MAKE A VERY GREAT DIFFERENCE TO OTHER PEOPLE'S EXPECTATIONS. THIS GOES BEYOND THE DIRECT INFLUENCE OF YOUR BANK IN THE COMMUNITY'S ECONOMIC AFFAIRS. AS BANK TRUSTEES, YOU ENJOY A HIGH STANDING IN

YOUR COMMUNITY: MANY PEOPLE LOOK UP TO YOU AS SETTING A GENERAL STANDARD OF BEHAVIOR. YOU SHOULD BE AWARE THAT IF YOU FAIL TO SET A GOOD EXAMPLE, OTHER PEOPLE MAY WELL DECIDE THAT THEY CAN CUT CORNERS THEMSELVES IN DEALING WITH YOU AND IN THEIR GENERAL BUSINESS DEALINGS. THAT SORT OF ATMOSPHERE IS VERY BAD BOTH FOR BANKING AND FOR THE COMMUNITY AS A WHOLE.

IT SHOULD BE APPARENT BY NOW THAT I TAKE THE ROLE OF BANK TRUSTEE VERY SERIOUSLY. A TRUSTEE WHO PERFORMS HIS DUTIES INTELLIGENTLY AND CONSCIENTIOUSLY CAN BE A GREAT SOURCE OF STRENGTH. EVERY INSTITUTION, EVEN A WELL-MANAGED ONE, CAN BENEFIT FROM A FRIENDLY CRITIC WHO IS WILLING TO QUESTION DECISIONS AND TO SPEAK OUT WHEN HE THINKS THE BOARD OR MANAGEMENT IS WRONG. THE STAKES ARE VERY HIGH. FOR THE BANK, A VIGOROUS BOARD OF TRUSTEES CAN IMPROVE THE BANK'S PERFORMANCE AND FORESTALL DEMANDS FOR GOVERNMENT REGULATION. FOR THE NATION AS A WHOLE, A WELL-RUN, SELF-DISCIPLINED BANKING SYSTEM CAN IMPROVE THE COMMON LIFE OF EVERYONE, BOTH BY INCREASING OUR PRODUCTIVE CAPACITY AND BY DOING WHAT NEEDS TO BE DONE FOR OUR LOCAL COMMUNITY.