

NEW BANK APPLICATIONS UNDER PRESENT CONDITIONS

BY

ROBERT N. McLEOD

DIVISION OF EXAMINATION

DELIVERED BEFORE THE

CONFERENCE OF SUPERVISING EXAMINERS

WASHINGTON, D. C.

APRIL 23, 1946.

* * * * *

Library
FEDERAL DEPOSIT INSURANCE
CORPORATION

The increasing number of new bank applications was not unexpected. The probabilities are that we shall continue to have these proposals until the present economic trend is reversed. The question of new banks places upon the Corporation the necessity for the exercise of sound judgment involving the utmost discrimination. These applications are usually prompted by the same motives, but they are surrounded by varying circumstances, and have differing degrees of merit. The community may be well able to support a bank or it may be a borderline situation. Again, the town may already have one bank, which places upon the Corporation largely the responsibility of deciding whether two can live and prosper. The fatefulness of the decision cannot be emphasized too strongly. Furthermore, the pattern which we set influences other Federal agencies, the State authorities, and the groups of individuals who are thinking of venturing into the banking business.

The Corporation has never wished to use its authority to perpetuate a banking monopoly. On the other hand, its own destiny and the economic well-being of the people of this country can be seriously affected by a loose policy along this line that will lead to superficial action and super-numerary banks.

All of this is simply a predicate to saying that we must have comprehensive investigations of these proposals made by specially trained men capable of giving us clearly defined and conclusive facts with which we can support our recommendations to the Board. We often receive a comprehensive investigation report, complete in every detail, that enables us to decide the question without uncertainty or delay. On the contrary, we may receive in the same mail a report that bears all evidence either of a lack

of understanding of the plain distinctions that we must draw, or the earmarks of hastily assembled facts, incomplete information, and superficial conclusions. We recognize the pronounced handicaps which you have suffered because of inadequate personnel, and we know that difficulty accentuates this problem. Notwithstanding, the clear remedy lies in the following procedure:

1. Assign these investigations and examination jobs only to trained examiners who have been indoctrinated with the fundamental principles;
2. Let these men understand that the job cannot be completed until each of the factors is fully supported with conclusive information; and
3. Check these reports in the District office and bring your own judgment to bear as to whether they are complete. Then, after all the information is in, if there are borderline factors, marshal the facts in your transmittal letter and give a rational expression of opinion that we can quote or summarize.

ESTIMATES OF DEPOSIT POTENTIAL

Obviously, estimating deposit volume is neither simple nor easy, but it can be done with a reasonable degree of accuracy if an experienced examiner goes about the job with diligence and good sense. The factors of capital, management, and earnings are tied into this question. An intelligent analysis of deposit volume reflects light upon and simplifies the other vital aspects of the investigation. We feel that it can be safely said that if a community deserves banking facilities, or if another bank is

really needed, proponents as a rule are well able to adequately capitalize a new institution. If we know with reasonable certainty what we are talking about as to deposit volume, we can speak with confidence and authority about capital needs. We then can measure the requirements as to management and we can move to a reliable conclusion as to the over-all question of earnings. Many of these small proposals spring from enthusiasm and community pride. Oftentimes realism on the part of our examiners in probing into these matters sobers the applicants into a realization of the dangers which confront them. If they are still enthusiastic and we find sufficient deposit possibilities, we should ask for capital commensurate with the deposit volume. From this distance we cannot give detailed instructions, but there is not an industrial community anywhere that cannot give a composite picture of payrolls, business prospects, and probable population trends. There is not a county agent in the United States that cannot take his pencil and calculate dollar volume of the agricultural products of his county. They are usually well informed as to probable trends. Neighboring bankers know with reasonable accuracy the deposit volume they will likely lose to a new bank. All of these factors have significant bearing on deposit volume. Full information on this subject requires energy to assemble and good judgment to appraise. The Corporation cannot do business in the dark. There has been a disposition on the part of some of our examiners to be strongly influenced in their analysis of this question by what they call normal deposit volume of a given community. In our approach to this whole problem recognition should be given to the fact that in all probability the over-all deposit volume in the country will remain relatively high. The Division of

Research and Statistics has recently issued a memorandum sustaining this view. It would be well to encourage our examiners to thoroughly familiarize themselves with this memorandum. The solution to this problem clearly lies in the district offices realizing these necessities and exerting themselves to see that the reports which they send to Washington are properly and conclusively supported. If we disturb you about these deficiencies, bear in mind that our Board demands that we furnish it with intelligent facts on which to base its action.

NEW BANKS SUCCEEDING OPERATING BANKS

The principle applying here can be briefly and simply stated. If the existing bank is being liquidated for selfish reasons to raid the capital, the Corporation cannot be expected to facilitate such a move, and will under no circumstances approve the succeeding bank unless adequately capitalized. If the transaction is being done in good faith, it is hardly reasonable to expect the Corporation to approve a bank which will succeed to a going and prosperous business unless sufficient capital is supplied.

ESTABLISHMENT OF SUBURBAN BANKS BY CITY BANKS

Supervising Examiner Davis will be requested to discuss this aspect of the subject as he has had some experience with this problem in his district.

CONVERSION OF INDUSTRIAL BANKS, BUILDING AND LOAN ASSOCIATIONS, AND SIMILAR INSTITUTIONS

In some states, increasing numbers of industrial banks are proposing to amend their charters with a view of doing a commercial business. Some of these were insured before the 1935 Act. Others applied for insurance as industrial banks and their applications were considered on that basis with a view to the convenience and needs of the particular community for that type institution. The Corporation feels that it has a right to look into such proposals and that formal request should be made for the consent of the

Corporation, followed by appropriate investigation as to the factors outlined in our Act. We can then submit the question to our Board for action.

The abnormal war-time growth in share accounts in building and loan associations and the accompanying inability to convert such funds into the normal investment medium of real estate mortgages have produced an asset composition in these institutions approximating the condition of mutual savings banks of some fifteen or twenty years ago. They are similar to mutual savings banks in asset composition, but unlike in accumulated capital or surplus funds which, in the instances of the association, are little better than one-half the average capital in the mutuals. The present growth and asset composition have been instrumental in producing a desire among these share associations to become banks of deposit. Mutual savings banks are their nearest relationship to such banks of deposit.

At the moment the States of Oregon and Washington have statutory provisions relative to the conversion of savings and loan associations to mutual savings banks. In Washington the Banking Department has gone on record as favoring the conversion and has initiated the filing of applications of certain savings and loan associations for Federal deposit insurance concurrent with such conversion. In fact, the Banking Department has stated that conversion will be accepted only with such insurance coverage. The weight of decision has been laid at our doorstep. We are at present in the process of developing policies in respect to required standards of admission. We hope to be able to offer some more definite and specific conclusions in these respects during the conference.

ENLARGEMENT OF BANKING POWERS THROUGH AMENDMENT BY CHARTER

By Counsel Oppogard

The Federal Deposit Insurance Law does not expressly give to this Corporation any powers to control such amendments, unless such amendment results in the creation of a new institution. Of course, such amendment results in the creation of a new institution, then, to be insured, the new institution would have to apply and be accepted for deposit insurance.

In 1936 a cash depository in the State of South Carolina proposed to amend its charter to become a commercial bank. Our then General Counsel, Judge Birdzell, ruled that this resulted in the creation of a new bank and that it was necessary for the new commercial bank to make application for deposit insurance.

Mr. Birdzell based his opinion largely upon the fact that Congress, no doubt, intended that where the insurance risk was enlarged, as would be the case when a cash depository changed to a commercial bank, this Corporation should have the opportunity to pass upon whether or not it would accept such additional risk or potential risk. He stated that this was borne out by the provisions of subsection (v) (4) which prohibits the consolidations or mergers or assumptions of liabilities or transfers of assets therein referred to without the prior written consent of this Corporation, and the further provision that insured nonmember banks are not permitted to reduce the amount or retire any part of their common or preferred capital stock, notes, or debentures without the prior written consent of this Corporation. He called attention to the difference in the powers of a cash depository and a commercial bank under the laws of South Carolina and showed the probable increase in liabilities of the latter over the former.

We do not believe that there is any question but that where an insured bank so changes its type of banking as did the cash depository in the case mentioned that it is not only a privilege but the duty of our Board of Directors to reexamine the new institution upon the factors mentioned in subsection (g) of our law. The question, however, is not so clear where the bank merely enlarges its functions. It would appear that if such additional powers may affect the insurance risk, that the Board would have the power to exercise some control thereof and, particularly so, when a resurvey by our Board of the factors could result in adverse findings. To take any other view would be tantamount to holding that the Board lacks power to protect the insurance fund.

The policy of the Corporation, therefore, has been, in effect, to require all insured nonmember banks to submit their proposed changes to this Corporation for our consideration and action, and the banks have uniformly agreed to do so voluntarily without raising any issue as to our power in that regard. However, we hope that the powers of the Corporation in this respect may soon be definitely determined and outlined in a rule or regulation.