

# NEWS RELEASE



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### EXAMINERS - A POSITIVE FORCE FOR AIDING PROGRESSIVE BANKING

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at the

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NATIONAL ASSOCIATION OF SUPERVISORS OF STATE BANKS

at the

University of Illinois  
Urbana, Illinois

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## EXAMINERS - A POSITIVE FORCE FOR AIDING PROGRESSIVE BANKING

You are here this week to improve your skills as bank examiners. You are participating in a push by state bank commissioners to upgrade their departments across the board. In the final analysis, you are playing a key role in the improvement of the dual banking system, to insure its continued existence, and its continued service to the public.

As C. V. Pierce, President of NASSB, has said, "The existence of the dual banking system is to a large degree dependent upon the excellence of our state bank examination procedures. Accordingly, the basic purpose of our school is to develop the role of supervisors and examiners as important members of our financial community."

While you are here you will attend classes dealing with asset management, managing for profit, credit analysis, internal controls, automation, managerial appraisal, trust departments, and report writing. Additionally, you will attend evening seminars on human relations, the Uniform Commercial Code, and monetary and fiscal policy.

During this one week, therefore, you will be looking not at the bare bones mechanics of examination--you are experienced examiners now--but at some techniques and areas which govern the operation of a bank. You will in large part be covering topics which are equally pertinent to the bank managements you examine. In this year's school, and those to come, which hopefully will be expanded to two-week sessions, state examiners in attendance will have a golden opportunity to develop something more than a routine approach to examination of a bank's assets.

As examiners and potential senior supervisory personnel within the banking field, you have a potential commitment to banking far beyond the routine check of a bank's affairs to assure that prudence is being maintained and the laws of the state and national government obeyed. It is a dedication to positive, progressive banking that I want to urge upon you today.

In the fullest sense, the bank examiner is in a unique position to assist bankers in developing positive and progressive institutions to serve the public, within the framework of a system hammered out over the years. It is, as you know, a unique system. No other nation has one like it. And--not coincidentally--no other nation has had quite the development, quite the freedoms, quite the standard of living, that this nation has.

It is a unique system in three basic ways. In the first place, it embodies dual supervision, blending state and federal controls in a concept of checks and balances. This assures flexibility and it eliminates the fear of a monolithic, dogmatic approach.

In the second place, the keystone of the system is adherence to the concept of locally owned and managed institutions.

This is a unique posture and from it stems the third basic attribute of the system--service to the community as a whole; development of small loans, of small checking and savings accounts, of service literally available to all citizens.

Maintenance of this system, with its strengths and freedoms, requires above all that the individual components, the locally owned and controlled banks, continue healthy and vigorous. Dishonesty cannot be tolerated. Nor can stagnation, if the system is to continue to flourish.

Your assigned tasks, as examiners, are to weed out dishonesty, to stop illegalities, and to halt unsafe and unsound practices. But all supervisors, state and federal, can exercise a higher role as well, in assisting the banking system to develop as positive an approach as possible to the concept of service to the public, to the nation, and to stockholders.

I do not suggest that any of us can or want to exercise the proper functions of management. We cannot make the judgements which management must make. We cannot assume the responsibilities which are management's. We do not have the incentive which spurs on management, and we do not face the penalty which management faces for failure.

But we can become a constructive force for better management and for a better banking system. We can foster better management and can act as a leaven spreading out throughout the system all that is best in effective positive management.

We can and should use as our watchword for all bank activities the word "excellence." Look for excellence in bank management, encourage and assist it, and utilize every possible tool to help management reach levels of excellence.

Put simply, it should be the task of the bank examiner, and the bank supervisor, to keep abreast of the latest in banking, and to act as a conveyor belt for every idea, every concept, every service, which helps a bank management to do an honest, and a positive, job in serving its community.

There are several areas where these basic premises hold true. Some will be subjects of this week of study you begin tonight. Some are not, but in order to equip yourself for the best possible job of assisting bank managers

in doing their job, you can and should seek constantly to expand your own horizons.

In the time remaining tonight, I would like to explore with you some of these areas, and to consider some of the ways in which supervisory authorities, including examiners, may possibly be of assistance to the banker in his everyday activities. Without attempting to usurp the prerogatives, or the necessary duties, of the bank manager, these all seem to me to be areas in which the examiner can constructively help the industry and the individual bank.

To begin with, you all have in the past, and I am sure will in the future, run up against management problems, both in the form of management which is perhaps not capable of discharging current responsibilities, and in the form of a failure to provide for competent successor management.

The scope of this problem, especially as it relates to the smaller rural bank, is outlined in a study by a FDIC examiner of the rural banks in one particular state. The study is several years old now, but the statistics and conclusions unfortunately still have validity, and I am sure you will recognize in some of them problems you have confronted in going into some of your own state's banks.

Surveying 50 smaller rural banks, this study showed that the average age of the managing officer was 61, with seven banks headed by men over 70. Their average income was very meager. Every one, without exception, supplemented his bank income from outside sources. Mostly they sold insurance, or fertilizer, or farmed, or ran general merchandising stores.

The average age of the second ranking official in the bank was 42. Some of the salaries reported for second officials were shockingly low. These

second officials did not have access to outside incomes in a great majority of the cases.

Even more shocking was the fact that in only seven of these banks did management report a qualified successor. Two banks had no one in any managerial capacity under the senior official. In 20 cases, the second official was a woman, usually of long seniority, who had been given a title as a reward for years of service. In these cases, however, the women held relatively routine positions and were not qualified to take over management of the bank.

Where there were men in number two positions, only seven were thought to be qualified to step up to the top slot.

One statistic may serve to show why these conditions continued to exist. In 26 cases, better than half, ownership and control of the bank was held in the hands of one person, while in three, one family owned and controlled, and in 15 other cases the board of directors controlled.

This is not a universal problem. But it is a wide-spread problem, and it is one where the bank examiner can at least help, by attempting to assist bank managers to build up their banks to the point where qualified help can be hired and paid, and hopefully trained to exercise future management functions.

At the same time the examiner faced with such a situation can, in working on an examination, discreetly turn teacher, helping to upgrade management abilities. Here a positive, helpful approach, rather than the desire to discipline, is the method which over the long run can get better results. I note that human relations will be one of the topics in the evening seminar program for this school, and I would suggest that that seminar might give you some tips on how to handle this kind of problem and render some positive

assistance to managers and other officers who need to know how to do their job and who can use some sympathetic assistance.

The problem inherent in the area of restricted ownership of a bank's stock is a delicate one. Invasion of the constitutional right to own and dispose freely of legally-held property seems to me improper. But there are ways in which the examiner might be able to help, in keeping abreast of situations in such banks, and perhaps by sounding a cautionary note.

For example: Several unfortunate situations have received wide-spread publicity recently, in which control of a bank was sold by an individual to promoters who then milked the bank in question. In most cases, control was sold because premiums offered were high. The promoters--not bankers, I should emphasize--did not care how much they paid above book value because they were buying for the most part with borrowed funds and for the purpose of using the bank's assets for their own purposes.

But could these situations have been averted if efforts had been made to dissuade the original owners from selling to such types? If the original owners had received some sound advice from the personnel of the state and federal agencies, and if the gravity of the problem had been brought out to them, could the bank failure have been averted?

The answer to these questions might be "no"--but any effort would be worth it, if only one case could have been averted.

In further discussing crimes against banks, the examiner can serve as a constructive force in helping bankers upgrade the work they do to guard against external and internal crimes. Examiners as a matter of course will check against possible embezzlements, and will spot check precautions against robbery.

But there is further action which can be taken, I should think. That would lie in trying, through education and through the examination report, to help clear up trouble spots before they occur. In a recent report, a House of Representatives subcommittee cited the growth in crimes against banks and urged several methods to combat this growth.

Among those urged was one that examiners "be given such training in the methods of prevention of external and internal crimes as will enable them to ascertain and advise on any security deficiencies in the institutions they examine."

One step recently taken by FDIC along these lines was the addition of a new checksheet contained in the report of examination. This sheet requires the examiner to check 21 specific items, embracing security programs, precautions against holdup and theft and against burglary. These are all areas where the examiner can be an effective informal adviser to the bank.

Another field in which examiners can contribute as a positive force is in the area of automation. This is a growing field; there are predictions that in the relatively near future automation will be the procedure in the industry as a whole. Recently David Rockefeller of Chase Manhattan Bank predicted that by 1975 money as we know it will be well on the way to being extinct, with the use of automated systems of credit as a replacement.

Whether we will go that far that fast remains to be seen. But it is a present fact that automation is growing, and more and more banks are using it. Here the examiner can help in several ways. Not all banks are ready for automation. The examiner perhaps will be in the best position to show this to the management. Then, too, when a bank is considering automation, the examiner,

as the representative of his state banking department, can help guide the banker to guarantee that the various controls and schedules needed by the banking department are programmed into the machinery. This is important not only from an examination point of view, but from the banker's as well, since the requirements of the supervisory authority will pretty well coincide with requirements which a prudent management should have.

Perhaps the single most important area in which the examiner can function (always remembering that his job is one of reinforcing management and not of usurping management's tasks) lies in assuring that a bank offers a full service to its community and gives its community a positive banking approach.

Banking has a public trust implicit in its operations. It has the power to create the larger part of the nation's monetary supply. It operates chiefly with the deposit funds of the public--which are not investments, but credits in large part payable on demand. The failure of a bank involves many other businesses, institutions, and individuals--and the failure of a bank to do an effective job inevitably inhibits its community as well.

The examiner's attitude to his job can have a great deal of bearing on how well banks in his area will do. Remember that poor management can drag down even the best potential situation, while good effective management can pull up poor assets or can go a long way toward correcting a poor competitive situation. The examiner who knows the difference can help bolster the poor manager. He can help the good manager who may face difficulties, even though the problems may be such that the results shown are not as good as desired. The examiner's understanding, and attitude, can be of great importance in any such cases.

If I wanted to set forth some guide lines, I would suggest to you that the bank examiner can serve as a positive force for good, effective banking in three main ways:

First, he can be a positive force for upgrading management performance. He can help correct mistakes and procedures.

Second, he can act as a teacher, passing on new methods and new techniques or assisting the unskilled in learning proven methods.

Finally, he can be a positive force for dynamic commitment to the concept that banking is a service industry, with a commitment to the public welfare, and with a commitment to community well-being and community service.

Bank examination can be an exciting, challenging, rewarding career. I hope you all find it so. And I hope that during this next week you will look for new ways to become experts in the field of banking, teachers of sound banking repositories of the best and broadest viewpoints within the industry.

We in bank supervision should look at our task as one not only of correcting the mistakes, and uncovering the irregularities and illegalities of bankers, but as one of helping management upgrade its abilities and services. Bankers want, and need, good examiners and good examinations. They pay for this service, and they hope to get as much out of it as they can. Where the examination is thorough, positive in approach, and geared not only to check safety, but to enhance ability, they, your state banking departments, and the public will have received the best in all of you.

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