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FDIC: A YEAR IN RETROSPECT

An Address by

K. A. RANDALL, DIRECTOR
FEDERAL DEPOSIT INSURANCE CORPORATION
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ROBERT MORRIS ASSOCIATES

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FDIC: A YEAR IN RETROSPECT

Just over a year ago I went to Washington to accept President Johnson's appointment to become a member of the three-man Board of Directors of the Federal Deposit Insurance Corporation. I knew when I accepted the position that it would be challenging and stimulating, but I must confess that I did not anticipate just how exciting, and how busy, the job would be.

It seems appropriate for me to give you a report on the agency of which I am proud to be a part. Much has been accomplished during the past year, and the groundwork has been laid for further developments in years to come, which we all hope will add to the strengths of FDIC and to the banking industry it serves.

The Federal Deposit Insurance Corporation was created by Act of Congress in 1933, and formally commenced business on January 2, 1934. It was designed to protect that part of the nation's circulating medium which is expressed in bank deposits, through the insurance of each depositor up to a statutory maximum which has risen over the years from $2,500, initially, to $10,000 at present.

As an added task, the FDIC was charged with the responsibility of examining all state chartered banks which are insured but which are not members of the Federal Reserve System. The FDIC also has the power to approve or disapprove branch, merger, and other applications of these banks, after state authorities act, and if the state action is favorable.

Finally, the FDIC acts as receiver for all closed national banks and for state banks in most states. Briefly put, this is the historical works of FDIC.

To discharge them FDIC at present has assets of over $3 billion, a staff of some 1,300, with regional offices all over the United States and a head office in Washington, D. C. It is administered by a three-man board, one of whom is the Comptroller of the Currency, and the other two public members who are appointed for six-year terms to serve the Corporation on a full-time basis.

I discovered soon after I joined the Corporation's Board that the FDIC in general adhered to a non-partisan policy. I am delighted to be able to say that Chairman Joseph W. Barr and I work in the closest possible manner, and that our actions are aimed to the best of our abilities for the benefit of the banking industry and the public it serves. This approach is, I am convinced, one of the greatest strengths of the Corporation.

Another strength which FDIC possesses in high degree is the professional competence of its staff, at all levels of operation. It did not take me long to find, after I joined the Corporation, that the senior staff was able, dedicated, and vastly experienced. Thus, during the past year, while we have built staff, we have not had to make changes in senior staff -- only to add to the help that they had available for the tasks to be accomplished.

When Chairman Barr and I moved in as directors of FDIC -- he preceded me by about two months -- we found that we had inherited an operation which by and large was running smoothly and successfully. But any organization, just like any individual, must be ready to seek continued improvement if it is not to stagnate. We found a staff fully conscious of this fact, and willing to work long hard hours in seeking better ways to serve the public and the banking industry. The result has been a stimulating year of effort, many long days of hard work, lots of dedicated thinking, and some concrete actions which, we feel, have improved the Corporation and its ability to fulfill its assigned tasks.

In looking back at this first year, several accomplishments stand out. I might add that in an examination of what we have done can be found the seeds of what we want to do.

One of our major assignments is, of course, the payment of insured deposits if a bank fails. Unfortunately, we have had to fill this assignment 11 times since Chairman Barr and I joined the Board. In this area of providing insured funds to the public immediately and in taking every possible step to minimize the dislocation caused by a bank failure, we have done three things:

We have revised procedures and strengthened the liquidation staff to the point where we have been able to cut in half the time it takes for the start of deposit payout. When we joined the Board the average time to start a payout was ten days. Now, however, the time has been cut to an average of five days. One example will show how this has been accomplished. The Crown Savings Bank of Newport News, Virginia, closed on a Friday. We immediately moved in a large staff of FDIC personnel, both from the Washington office and from various field offices. Additionally, we hired over 50 young girls attending a local business college, as temporary clerical help. They may not have been the most expert clerks and typists in history, but they made up for any shortcomings by their devoted hard work and enthusiasm. As one of the girls said, the FDIC staff and the girls worked "from seven in the morning until 'can't'," and "can't" was when they could not see their work, generally about eleven in the evening. That Monday was a holiday. On Thursday morning we started payout of over 9,000 accounts, with five calendar and only two business days between closing and payout.

The second step we have taken was the formation in two instances of Deposit Insurance National Banks, institutions chartered for up to a two-year life-span to provide their communities with limited banking. This was the first time this provision of our law had been used since the 1930's. In each case these institutions were established to fill voids in banking services. In each instance it is our hope that new banks will be chartered soon which assume the assets of these unique institutions.

The third step in this line was worked out twice in California, in the Covelo and San Francisco closings. Essentially, it provided for local banks to immediately open accounts for depositors of the closed banks, upon receipt of an assignment against the closed banks. In effect, the bank purchased an account receivable due from the depositors' insurance claim. This was a mechanism whereby the local banks advanced funds to depositors for the few days between closing and FDIC payout. This was yet another way of cutting down the time in which funds are frozen and further minimizing the impact of a bank failure on its community. We hope to be able to refine this procedure even more and use it in future cases where it would be appropriate and where the necessary arrangements with other local banks can be made.

If our primary responsibility in a closed bank is to make immediate payout to insured depositors, we still have another major responsibility where we are named receiver to make as complete, as inexpensive, and as profitable a liquidation as possible. We have a strong duty to the general claimants against the bank, including the holders of uninsured deposits. The Corporation has always attempted to make sure that we do not charge unnecessary expenses to a liquidation, and has for years absorbed as a normal expense of the Corporation many of the activities of liquidation.

We are proud of our cost experience in liquidations. A recent report for United States District Courts showed that all bankruptcies completed during calendar year 1962 under District Court supervision showed an expense to recovery ratio of over 26 percent. In other words, 26 cents of every dollar recovered in a liquidation was spent on expenses. Our own experience for all cases through 1958 was 5.8 percent, while the 15 cases since 1958, some of which are not yet completely liquidated, show an expense to recovery ratio of 3.53 percent. Our high case was 7.68 percent, our low 1.70 percent.

There have been large steps taken in the personnel area to increase the effectiveness of the Corporation. We have increased the staff, especially in the areas of examinations, liquidation, research, and the legal department. One step has been the addition for the first time of women to our examination staff. We now have four on assignment as trainee examiners, and they are working out well.

We have gone further than adding to permanent staff, especially in the research area, where several new programs are being carefully studied. This is in the area of using top academic and professional minds on a contract basis or as consultants.

Automation is one area in which the FDIC is making plans for a major commitment. We have, and have had for years, a small computerized system used primarily for the gathering of basic banking statistics and some of our internal accounting and assessment work. Now, however, we are studying several major computers and will soon have on order one appropriate for our needs. When this system is installed, we plan to develop some new and more sophisticated approaches to bank data and banking problems, and to launch into what have previously been almost impossible studies which should be of major help to us and to the banking industry.

During 1964 there were two legislative developments of importance to the banking industry. These were enactment of the Securities Act Amendments of 1964 and of the amendment to the Federal Deposit Insurance Act for reports on changes in control of banks.

The latter came as the result of a series of bank failures, the bulk of which involved banks where management had changed shortly before failure. The unfortunate result of these acquisitions, and of the self-dealing activities which resulted, was the failure of seven insured institutions during 1964, all but one from this basic cause. As a result we asked the Congress for legislation which would require notification of the appropriate Federal banking agency when there was a change of control of an insured bank, or when an insured bank lent funds on the security of at least 25 percent of the stock of another insured bank. Congress moved with great speed, considering the normal slow course of banking legislation. Only two months after the measure was requested Congress passed it and President Johnson signed it.

The second legislative development of the year, the Securities Act Amendments, required the banking industry for the first time to adhere to some of the reporting requirements which have governed business since the establishment of the Securities and Exchange Commission. Banks with over $1 million in assets and with 750 or more shareholders of a single class are affected -- this is about 350 of the nation's 14,000 banks.

As a result of the new legislation, FDIC last Fall issued regulations for comment, and, on December 31st, issued formal regulations which took effect January 1st. The regulations have five main provisions. They require the initial filing of a registration statement with FDIC, the filing of annual financial reports and quarterly figures on earnings, current reports on major events affecting the bank, conformity to certain rules in the handling of both management and other stockholder proxies, and reports on "insider" stock transactions.

The new regulations also include detailed forms to be used in filing the various reports. Through this medium, some principles of uniform accounting are being developed. We feel that in the years ahead there will be a greater need for more uniform accounting procedures, and this is one area in which we hope the FDIC, working with banking trade groups, will be able to make some progress.

These rules, we feel, can be of great assistance to the banks which are affected by them. They should be of great assistance to those banks which wish to take advantages of opportunities to raise capital in today's market. They should serve as a tool for high level bank salesmanship, selling services to corporations and other customers who seek information about their banking connections. And they should serve to increase the public's confidence in banking, as the public learns more and more about banking. Used positively, these new regulations can be an asset to an alert management, and, if this proves right, more bankers may want to bring their banks under the purview of the regulations to take advantage of these possibilities.

One of the most important events of the year was the first of what will be a series of meetings with state banking supervisors. State supervisors from ten Western states attended the first meeting last June. The meeting lasted three days. After an initial day devoted primarily to briefings by Washington officials on international financial developments, the conference settled down for two days of candid, informal, working sessions which ranged far and wide over banking and supervision. We looked at our common problems, examined each others' solutions, tested each others' suggestions, and, I hope, derived some common benefits from the program.

We held a second such meeting earlier this year with New England, Middle Atlantic, and Caribbean supervisors, and found the same positive advantages.

These meetings were built up around one of our most important guidelines, our adherance to close and continuous cooperation with state banking authorities. If the dual banking system is to be preserved, and if it is to continue to be a meaningful part of our banking scene, it can be preserved only by such mutual cooperation for common goals. Those goals, of course, continue to be a strong banking system offering broad service to the public.

It has been a good year, taken as a whole. Some constructive work has been accomplished, and the Corporation's ties to the banking industry and to state supervisors have, we feel, been strengthened. The year ahead promises to be equally stimulating. One development in the works deserves especial mention.

The Corporation is reviewing its examination procedures, in the hope that they can be developed into a better tool for the use of bank managements. We want examiners, and examination procedures, which will help bank managements. The single strongest contribution we can make to the economy is to continue to strive for well managed, sound banks which serve their communities.

We hope that examinations and the examiners who conduct them can act not only as critics where needed, but as disseminators of the best in banking techniques; as teachers, and as spokesmen for positive bank standards.

It has been a good year. The American banking system is as healthy as it ever has been in its history. It offers the American people a wider range of services than ever offered before in any nation. It is filling the basic credit needs of the country. There are minor problems, but taken in the context of the industry and nation as a whole, these are minor indeed.

And I can pledge that we at the Federal Deposit Insurance Corporation, working with other Federal agencies, with state regulators, and with the banking industry itself, in the year ahead will do all in our power to continue to develop a prosperous, healthy, and serviceable banking industry. For all challenges facing us for the future, we intend that the Corporation will be ready for action, and we hope the banking community will be ready with us -- as I am sure they will be.

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