NEWS RELEASE

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FOR RELEASE AT 7:00 P.M,
FRIDAY, JUNE 18, 1965:

THE HAROLD STONIER MEMORIAL ADDRESS

By

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FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D. C.

before

THE STONIER GRADUATE SCHOOL OF BANKING

of the

AMERICAN BANKERS ASSOCIATION

at

Rutgers-The State University

New Brunswick, New Jersey

Friday, June 18, 1965

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If someone were to ask me about the hardest part of speaking assignments nowadays, I think I'd reply that it involves what not to talk about rather than what to say. In banking, as in nearly all the facets of current events, a great many issues have special interest for all of us. Each has its own history and background, and some are of more interest than others.

The problem of selection is one of concluding what may be useful to a particular audience while doing some justice to the occasion -- and to the speaker's responsibilities. This, of course, is a sophisticated audience which doesn't require elementary discussion of current issues. As to the occasion, it is an important one which has its own tradition and history. And for my part, the Federal Deposit Insurance Corporation certainly has significant responsibilities in the banking structure of the United States.

On the other side of the coin, my memory tells me you have not been here on vacation and that you have just finished part of a period of rather intensive concentration. Some little let-down seems reasonable.

Weighing all these facts, I've decided to resist the temptation to make an oration! Instead, I'm going to concentrate on just two or three points -- not necessarily related -- which may sometime jog your memories usefully.

To the extent that they may underlie discussion of specific current issues, these reminders may border on the elementary -- but therein lies the speaker's risk!

Perhaps I can start by saying -- as a banker having a rare opportunity to work in the supervisory field -- that it seems to me I have an obligation to share some of my experiences and observations with bankers generally.

As one such observation, I have the feeling that we sometimes overlook where we have been in undertaking to extricate ourselves from where we may be.

I have no way of knowing precisely how you feel about the American banking system, but I must assume you share my view that banking is a fascinating business. In a purely personal sense, its relevance to our kind of economic system, and its basic rewards and challenges, on balance, usually outweigh the normal headaches which go with working for a living.

By the same token, the quality and the quantity of American banking are unmatched in any other time and in any other nation. We are a part of the banking system which has helped to develop the world's most productive economy. In fact, the range and vitality of banking services have become so much a part of our way of life that we and the country may take them pretty much for granted.

This may indeed represent a deserved tribute to the banking industry. I think it does, but it also allows me to suggest the possible wisdom of viewing banking problems in the broad context of our banking system's characteristics and history.

It won't be news to you that diversity is one of the hallmarks of our banking structure. Through evolution, through trial and error and setbacks, and through extemporaneous solution, we have developed a highly diverse banking system which has worked amazingly well for us. It is nevertheless a fact that to some observers it may seem complex, disorganized, and a thing of bits and pieces.

What is sometimes overlooked is that it has evolved out of our entire national experience -- and that it's been fashioned out of the divergent needs of our people, our industries, and our communities. On that score, it has been serviceable by any test -- and it has succeeded in providing a mechanism for support of national policies while reflecting a philosophy of local service and local ownership.

The earliest attempts at bank organization in the colonies started this evolutionary process. As you know, it continued painfully through one crisis after another to the time of Robert Morris and Alexander Hamilton -- and thereafter through the formation and the liquidation of the first and second Banks of the United States.

Then came the era of "free banking" and the gradual development of a more diverse, diffused system -- which probably couldn't have emerged if the country had supported a centralized, unified banking structure. In no other nation has this concept of diversity developed, but it did so here because events, evolution, and national choice combined to make it possible.

In the meantime, mutual savings banks and savings and loan associations came on the scene and further complicated the structure. The whole somewhat disordered paraphernalia grew or failed, flourished or fell back.

Then once again an event required national response. The Civil War made it clear that a national currency and currency control had become national requirements. So this era produced its particular evolutionary contribution and, as time passed, we moved closer towards more order in the dual system which the country seemed to prefer.

It wasn't all this easy, as you'll recall, for many crises and strains appeared along the way. The initial impact of the National Bank Act on state banks, the problems inherent in correspondent banking and intermittent panics and politics made it a long and troublesome road.

At any rate, the whole highly-diverse structure did evolve and survive, the Federal Reserve system did come into being, and the concept of Federal deposit insurance eventually became a requisite after years of prior debate and experimentation.

The point I want to make in dealing so casually with three hundred years of history is simply that it's sometimes possible to observe a tendency to overlook this backdrop to our current problems. I hasten to add, on the other hand, that this is not the same as arguing that what we have evolved is now immutable.

Times and methods have changed and will change more -- national requirements and needs are different and will not remain unaltered -- and banks and banking services will not stand still.

Yet the fact remains that fundamental national attitudes and philosophies have clearly influenced the evolution of our banking structure. Men of good will and great vision have made indelible contributions. And men of questionable intent have historically had their impact, sometimes unknowingly.

It is equally clear that crises and catastrophes have left their marks. The banking record of the United States is full of instances in which vicissitude has helped to shape the evolutionary forces.

And so, while I can't specify precisely how a sense of the historical should influence us, I do want to suggest that bankers may have an obligation to test current positions against our banking history. I don't propose it as the only test but rather view it as <u>one</u> of the benchmarks to be noted in making <u>our</u> contributions to the continuing process.

In recent years, the term "chain reaction" has appeared in our lexicon. Perhaps I am saying that as we consider necessary solutions to current and future banking problems we ought to make it more a habit to weigh the potential "chain reactions." In that sense, it seems relevant to me to suggest that all bankers and bank supervisors might usefully assess extemporaneous positions and solutions in terms of their basic impact on the kind of structure our whole history has shaped.

Let me turn now to a few points about the Federal Deposit Insurance Corporation.

Something over two thousand years ago, I think it was Aristotle who said that "The use of money was devised as a necessity." In its own time in this country, the concept of Federal deposit insurance became a necessity. Today it is an inherent part of our banking structure -- so much so, in fact, that a whole generation takes it for granted and knows relatively little of its history or operations.

The Federal Deposit Insurance Corporation has now completed thirty-one years of operation. It was created at the depth of the most severe banking crisis in our history. Its immediate contribution was the restoration of public confidence in banks, and over the years it has clearly helped to strengthen our banking system.

In today's environment, it's hard to recall that in 1933 a President of the United States had to address the following words to the country: "What, then, happened during the last few days of February and the first few days of March? Because of undermined confidence on the part of the public, there was a general rush by a large portion of our population to turn bank deposits into currency or gold -- a rush so great that the soundest banks could not get enough currency to meet the demand....By the afternoon of March 3rd scarcely a bank in the country was open to do business. Proclamations temporarily closing them in whole or in part had been issued by the Governors in almost all the States."

Whatever the causes -- and they are still controversial -- these were the facts. And here is a classic example of a cataclysmic event shaping the evolution of our banking and regulatory structure. Deposit insurance was not a novel idea; nor was protection of the small depositor its only purpose. Its monetary function in restoring the circulating medium destroyed through bank failures was believed by many to be even more important.

In any case, the times required action and the test of time has supported the validity of the concept. Its stabilizing influence on our economy has been unquestioned.

Today, the Corporation insures deposits in all but 461 of the 14,281 banks which make up our system. In its lifetime, 454 banks have required disbursements by the Corporation. Perhaps more important, the Corporation and banks working together have contributed heavily to the consistent and general elevation of sound banking practices.

There is no need for me to gild the lily here insofar as the Corporation's functions and operations are concerned. The impact of deposit insurance in restoring and sustaining public confidence in the banking system may have slipped from public view in recent years -- but I doubt that it has slipped from the awareness of many bankers.

In passing, I note only that the Corporation's supervisory role is always in a process of self-evaluation. Time and events have had and will have their impact upon examination techniques -- just as experience has pointed the way towards faster and more efficient liquidation procedures when they can't be avoided.

Perhaps more to the point here, I want merely to remind you that the Federal Deposit Insurance Corporation does not operate by virtue of far-reaching powers. It does not have the power to charter banks. It does not have the power to close banks. In fact, it has the power to pass upon only about half the new banks admitted for insurance.

Its real strength lies in the effectiveness of deposit insurance as an essential component in the kind of society and financial structure we have evolved through the years. Its administration has been successful because its experience and resources have been directed to working with bankers in a common objective -- the maintenance of sound banking practices in a strong and healthy system.

As you return to banking, I hope you'll occasionally have an opportunity to reflect these reminders when you are drawn into day-to-day discussion. In a complex way of life, it isn't at all difficult to regard our regulators as adversaries -- or for regulators to proliferate their powers.

We are not only determined to avoid that relationship, but I want to re-affirm that the Corporation is moving comprehensively to improve its services to the banking community. Whether it may involve the development of useful banking data from the application of computer techniques -- or assistance to smaller banks in audit procedures -- or more effective examination processes -- or simply improved communication with bankers and State supervisors -- we intend to broaden the Corporation's effective support of a thriving banking industry.

Perhaps you'll have a chance to help us as evolution proceeds.

Finally, I want to comment briefly on only one other point.

Every speaker, like every listener, is bound to hold firm views about some aspect of his field. I am no exception.

In my case, what I regard as the pressing need for positive bank management represents a deep-seated conviction. Let me deal with it very briefly as a point of view rather than a blueprint.

A few minutes ago I emphasized the diverse nature of our banking system in its historical context. As opposed to the situation in most other countries, this diversity has produced great numbers of banks in our country -- even though entry has been regulated and not entirely free.

This means to me that the individual bank manager's responsibility involves much more than the careful custody of deposits once he has received his charter.

Without question he has a responsibility to be a technically sound banker -- and to produce a profit for his stockholders. But even more, he has a responsibility to drive for positive management -- in the interests of his depositors, his borrowers, his community or his region.

No platitude is involved here. As a banker and a bank supervisor, I have seen managements which do not meet this test. And I know you have.

Clearly, positive management will do everything in its power to fulfill the credit needs of its community. And of equal importance, it will give its community the financial and economic leadership it requires. The banker's role and positive management simply force him to become a part of the financial core of his community.

Beyond this, diversity also breeds intense competition. The plain fact is that the banker who likes his job, respects his responsibilities, and cares for his community, has no choice. The envireonment in which most banks are operating places the highest premium on positive management.

I also said earlier that the Federal Deposit Insurance Corporation in fact has limited powers. None of us wants to see the supervisory authorities assume any of the duties or powers of bank management. The day-to-day operation of a sound bank, and the commitment to financial leadership and positive management within a community, are not proper Federal or State responsibilities. These are increasingly the essential roles of bank managers, and the banking industry.

I hope you'll agree with me that those who pursue this course will be rendering real service to the banking industry.

In using this occasion to discuss these few reminders, you can now see that I've foregone the temptation to display erudition at some length! My solace will have to lie in something Thomas Jefferson wrote about the vices of amplification. As I recall, he observed that "Speeches measured by the hour die by the hour."

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