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IN THE INTEREST OF THE DEPOSITOR

Address of

K. A. RANDALL, CHAIRMAN
FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D. C.

before the

73rd Annual Convention
of the
SAVINGS BANKS ASSOCIATION OF NEW YORK STATE

at

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New Orleans, Louisiana

Tuesday, November 22, 1966

IN THE INTEREST OF THE DEPOSITOR

Mutual savings banks were established during the early years of our nation's industrialization to encourage personal thrift among small savers by providing a safe repository for their savings. The trusteeship form of organization developed to provide for the security of the savers' hard-won earnings and to ensure their useful and profitable employment. This concept has endured to this day, and the mutual savings bank industry can be justly proud of its continuing record of concern for the interests of its depositors.

The outstanding record of the mutual savings bank industry is well represented by the New York state savings banks which hold more than $30 billion in deposits and account for a major share of mortgage financing within the state.

It is with great pleasure, therefore, that I speak to you today. As the Federal agency entrusted with supervisory powers over insured mutual savings banks, I want to say that you have earned our respect and that of your depositors and of the general public for your contributions to our economic well-being.

The past year has been one of ferment and change, especially in sectors of particular concern to you. The rate of personal saving slowed significantly in the face of an almost unprecedented demand for funds. The competition for savings among financial institutions and in the money and capital markets has been intense. Many financial intermediaries have had to offer progressively higher rates of interest in order to attract new money as well as to retain the funds already on deposit. Interest rates, as a consequence, approached the highs of the early 1920's.

The increase in interest rates has served to facilitate the reallocation of our financial resources to those sectors experiencing the strongest demand pressures. In the process, other sectors have been unable to attract sufficient funds to maintain previous levels of activity--most notably, the interest-sensitive housing market. The impact on the economy of higher interest rates has therefore been rather uneven.

The competition for savings accelerated shortly after the Federal Reserve increased the discount rate and raised the interest rate ceiling in December 1965. Then, the pressures were particularly strong in the major financial centers--and have subsequently spread to banks in outlying areas. The shifting of depositors' funds within a single financial institution from a lower yielding account to a higher one, from one institution to another, or directly into the money and capital markets and an escalating rate pattern tended to have a destabilizing effect on the savings market and on the money and capital markets. The Federal supervisory agencies therefore supported Congressional action granting us broadened authority for one year to set interest rate ceilings according to any reasonable criteria. Insured mutual savings banks were brought under the interest rate ceilings on September 26. Insured savings and loan associations became subject to rate ceilings at the same time in recognition of the close interrelationship of the various savings institutions competing in the savings market.

Some two months have elapsed since the new rate ceilings went into effect. Adjustments are still being made in the market, but the escalation of interest rates paid by savings institutions has been largely dampened. Market rates of interest have fallen from their September peaks, and there seems to be less churning in the financial markets. The calmer tone characterizing the financial sector in recent weeks can be attributed in part to the slackening of the intensive interest rate competition.

The interest rate ceilings that became effective last September have contributed to a lessening of upward rate pressures. But some easing in demand pressures has also been a factor. Market rates of interest may now reflect a more realistic assessment of the prospects for continued high levels of economic activity, the persistence of price pressures, and future military requirements. The economic outlook, however, remains clouded because of uncertainties regarding Vietnam.

The current pattern of savings flows and of interest rates offered on time money by savings institutions does not indicate a need at this time for additional regulatory action affecting the ceiling rates applicable to mutual savings banks. The present ceilings appear to give savings institutions sufficient flexibility to adjust to foreseeable changes in market conditions and permit financial intermediaries to remain competitive with other market instruments. Nevertheless, we are continuing to maintain close scrutiny of the market.

Two points might be stressed in this connection, however. In the first place, the ceiling rates must not be interpreted as suggested rates. The interest rate regulations were not designed to give supervisors of financial agencies the right to assume a prerogative that belongs to bank management. The rate of return offered to savers within the limits imposed by regulation is a decision that must always remain with management--and with management alone. Rate ceilings should be established at levels that give most institutions leeway to exercise their own judgment on the rates appropriate to their own situation and consistent with the public interest. The issuance of frequent and detailed regulations by the supervisory authorities could frustrate the intent of interest rate legislation.

In the second place, let us not forget that the actions of last September do not constitute a cure-all in the competition for savings. We must continue to strive for a better understanding of the basic factors responsible for the sharp escalation in rates and for the disruptive savings flows.

The relative calm in financial markets, which we are currently experiencing, may be only temporary. But we should try to take advantage of this pause-- however brief--and not become overly complacent about the current stability in the savings markets. Now is the time to take stock to see where we have been, where we are, and where we want to go. Let us prepare to take the initiative in determining our future course and direction rather than wait passively to drift with events. Now may be an opportune time to take the long view--but without sacrificing our ability to cope with short-run problems and pressures.

The environment in which we operate today is in many respects unlike the world of yesterday--and presents us with new challenges. New and larger demands are being made on our real resources--already close to full employment levels: the exploration of space, the Vietnam conflict, the development of model cities, and broader educational opportunities for larger numbers of people, to name only a few. These demands will tax our resources and our capabilities for years to come. At the same time, changes are occurring more rapidly and are more pervasive. The problems are not only new but they are greater in magnitude than before and at least as complex.

It is therefore important that we be prepared to adjust to these new demands and to the problems that may develop. The past six years of steady economic expansion may have masked instances where adjustments were not made to basic changes in the environment. A slower rate of economic growth could expose some of these hitherto unrecognized weaknesses or point up some lack of flexibility and adaptability. But there is still time to correct these deficiencies.

The ability to adjust to changing times and to anticipate future needs and problems is a crucial determinant of the strength and vitality of our financial institutions. Each institution has the responsibility for developing and strengthening its own ability to adapt. Since this responsibility is shared by all of us, I would like to ask each of you to participate along with the Corporation in a "competition in excellence"--a competition that will yield benefits for all. By striving for excellence, rather than jockeying for position, for instance, the well-being of the economy and of each institution can be maximized.

It is difficult to predict the specific problems of the future--but, as long as responsibility, initiative, and imagination exist in each institution, we can be optimistic for the future. Mutual savings banks have chalked up an excellent record of service to the individual saver in this regard.

Nevertheless, ways to improve or expand services in line with the original concepts on which your institutions were founded should be continually explored. The advantages of short-term growth must be carefully weighed against longer-run considerations of earning capacity and the safety of the savings entrusted to your care. For brief periods of time, however, it may occasionally be necessary to allow short-run considerations to dominate current policy. But the basic factors should never be ignored. Your bank's ability to adapt to changes over a business cycle should also be reassessed in the context of recent developments. Are your portfolio policies sufficiently flexible? Is your asset and deposit structure appropriate to the current situation and for the future? If not, are the alternatives being investigated?

Fostering of a dynamic and well-balanced financial system is a primary objective of the Federal Deposit Insurance Corporation. A significant contribution that we can make to the "competition in excellence," therefore, is to help the institutions under our supervision to adjust to new situations and to assist during the transition period. Our assistance can include the development and exchange of better information, periodic discussions of common problems and further improvements in the quality of our supervision. The liaison committee appointed earlier this year by your Association should provide an effective and useful channel of two-way communication. Furthermore, the Corporation always welcomes your views on matters of interest and concern to you. Your continued cooperation has enabled us to carry out our responsibilities more effectively.

We share with you an overriding interest in the strength and viability of savings institutions in our financial system and, in particular, mutual savings banks. Individual savings have played an important part in the economic growth of our nation--with savings banks fulfilling an essential function. Because individual savings will continue to play a major role in the financing of economic activity, financial intermediation must remain with those institutions best equipped to do a good job. Mutual savings banks have served as a vital cog in our financial mechanism in the past and should continue to do so in the future. The effectiveness with which this function is discharged, however, depends primarily on your own efforts and adaptability. The supervisory agencies are of necessity in a secondary position--but you can be assured of our fullest support and wholehearted cooperation in carrying out your role. By committing ourselves to a "competition in excellence," our task will be facilitated and our benefits greater. Each of us is an integral part of a larger whole, and whatever we accomplish will redound to the benefit of all--but most of all to the public we serve.

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