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Statement
of
Chairman K. A. Randall
before the
House Banking and Currency Committee
March 16, 1967

Mr. Chairman, this occasion affords an opportunity to review once again the background and the essential features of Federal deposit insurance and the organization of the Federal Deposit Insurance Corporation. For you this is not a new story because of your long familiarity with the subject matter and your active participation in the development of the legislation creating the deposit insurance system. The new members of the Committee, however, may not yet have had an opportunity to study the record of the Federal Deposit Insurance Corporation. This statement, however, will only touch briefly upon the essential features. A comprehensive discussion of Federal deposit insurance would require much more time than is available today.

Prior to the enactment of Federal deposit insurance legislation, the banking structure in the United States was periodically disrupted by recurring waves of instability as unsafe and unsound banking policies and practices undermined public confidence in the soundness of individual institutions. This instability produced repercussions throughout the entire economy. Thus, periods of prosperity seemed inevitably to be followed by financial panics and depressions.

In the depths of the Great Depression of this century, the Congress of the United States in 1933 enacted legislation designed to reduce instability in banking by creating the Federal Deposit

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Insurance Corporation. Federal deposit insurance up to $2,500 for each depositor became effective January 1, 1934, and contributed almost immediately to a revival of public confidence in banks. In addition to providing protection to the depositor, when insured banks failed, Corporation disbursements in effect restored that portion of the community's money supply covered by deposit insurance. Thus the Corporation over the years has become a crucial element in strengthening our entire banking system so that it is better able to meet the challenge of modern times.

Not many changes have been made in Federal deposit insurance coverage during the 34 years of the Corporation's existence. Insurance coverage was increased from the initial maximum of $2,500 to $5,000 per depositor on July 1, 1934; then to $10,000 on September 21, 1950; and more recently on October 16, 1966 to $15,000. Based upon current available statistical information, about 191.1 million or 98.7 percent of all accounts in Federally insured banks are at or below the $15,000 maximum. It is estimated that $226 billion or approximately 58 percent of all deposits held by these insured banks are fully covered by the present $15,000 maximum.

Contributing in large measure to the success of Federal deposit insurance is the fact that all but 418 of the 14,291 banks which comprise the major segment of the nation's financial structure are insured by the Federal Deposit Insurance Corporation. Within this structure, diversity is the outstanding characteristic. The

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insured banks vary greatly in size; they differ materially with respect to types of business; and they operate under the varied laws of the 50 states as well as the Federal Government. Especially noteworthy is the fact that most of the banks in the United States are small; 12,800 banks--none of them with assets in excess of $50 million--account for 95 percent of the total number of commercial banks insured by the Corporation.

The diversity and decentralization of our banking system allow considerable latitude for the exercise of individual judgment, and therefore also provide opportunities for success as well as penalties for failure. Deserving of emphasis, however, is the fact that much of the strength of our banking system stems from these two characteristics.

To soften the impact of bank failures on the economy, the Corporation has disbursed $421 million since its creation in 1934 to protect depositors in 466 failing banks whose deposits aggregated $804 million. Recoveries have totaled some $373 million, at a net cost of $48 million for protection of depositors. During the same period about 130 noninsured banks failed. The number of bank failures since the establishment of Federal deposit insurance stands in sharp contrast to the 1920-1933 period when approximately one-half of the nation's banks were forced to close their doors.

Two distinct periods are discernible in the record of bank failures since the establishment of Federal deposit insurance. More

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than three-fourths of these failures occurred prior to World War II. Thereafter, there have not been more than nine failures in any year. This record shows that the Federal Deposit Insurance Corporation has been an element of stability in the banking system.

Depending upon the circumstances, the Federal Deposit Insurance Corporation, in dealing with a failing bank, employs the method most appropriate under the law for extending protection to depositors in failing banks. In 190 of the 466 cases requiring Corporation assistance, the deposit liabilities of the failing bank were assumed by another insured bank, with the Corporation taking over by purchase or loan those assets of the distressed bank that were unacceptable to the absorbing bank. Pursuant to this arrangement deposits are immediately available in full to all depositors. This method by law is used in those circumstances wherein it will enable the Corporation to reduce its risk or avert threatened losses that might otherwise be incurred if the bank were closed. For the remaining 276 cases, the banks were closed by the chartering agency--the Comptroller of the Currency or the state authority--and the Corporation paid off depositors directly up to the insurance maximum. As of the end of 1966, approximately 97 percent of all deposits in failed banks had been paid out or otherwise made available to depositors.

The Federal Deposit Insurance Corporation was established through a deposit insurance fund of $289 million advanced by the Treasury and the Federal Reserve Banks. Subsequently, this advance

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was repaid in full to the Federal Government, together with interest totaling $81 million. At the present time, a deposit insurance fund of $3.3 billion has been accumulated from the statutory assessments levied upon insured banks and the earnings of the invested funds.

The Corporation also has the statutory authority--which incidentally has never been used--to borrow up to $3 billion from the United States Treasury to supplement the insurance fund. The fund and the borrowing authority stand as a symbol of assurance to depositors in banks of the Government's determination to keep deposit losses at a minimum. Based on the system's past experience, the amount available in the fund has been more than sufficient to meet the Corporation's obligations.

The deposit insurance system is financed by an assessment on each insured bank of one-twelfth of one percent of its assessable deposits. An amendment to the FDI Act in 1950 provided, in addition, that a portion of the deposit insurance assessment could be credited by the insured banks against their future assessment liabilities, after the payment of the Corporation's losses and expenses. Another amendment to the law in 1960 increased the amount of the assessment returned to the insured bank so that the effective charge for deposit insurance protection at the present time amounts to about 1/31 of one percent of the deposits.

In addition to its deposit insurance functions, the Corporation has certain powers in the area of bank supervision. These powers,

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however, do not include the power either to charter a bank or to close a bank. Such powers are reserved in the case of the national banks to the Comptroller of the Currency, and in the case of state banks to the designated state authority.

The Corporation has the power to pass upon the insurability of state-chartered banks not members of the Federal Reserve System and aggregating some 7,400 banks at present. The 4,800 national banks chartered by the Comptroller of the Currency and the 1,350 state-chartered banks that are members of the Federal Reserve System become insured without action by the Federal Deposit Insurance Corporation. Nevertheless, cooperation between the Corporation and the other banking agencies--both Federal and state--particularly with respect to the examination of banks, has made possible and practical an effective, nationwide deposit insurance system.

Bank examination is the most effective tool used by the Corporation to implement the objectives of Federal deposit insurance. The Corporation regularly examines insured state banks which are not members of the Federal Reserve System. Banks in this group comprise about one-half of all insured institutions in the United States and hold about one-fourth of the bank assets. In addition, the Corporation regularly reviews the examination reports prepared by the Office of the Comptroller of the Currency for all national banks as well as the Federal Reserve reports covering state-chartered banks that are members of the Federal Reserve System. Thus the Corporation keeps

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itself informed regarding the condition of insured banks, and it is in a position to facilitate adoption of whatever remedial measures may seem necessary.

The Federal Deposit Insurance Corporation is responsible to Congress. In its operations, it functions as an independent agency within the executive branch of Government. Unlike many other Government agencies, it does not receive Congressional appropriations, but depends instead upon assessments on insured banks and on interest income on the U.S. Government securities it holds. All permanent employees except a few senior officials have civil service status. As a public corporation, in addition, with the power to sue and to be sued, it has certain advantages in the pursuit of public purposes not shared by the straight-line Government agencies. This is a most important power to the Corporation in its role as receiver of a failed institution.

Management of the Corporation is vested in a Board of Directors consisting of three members, two of whom are appointed for 6-year terms by the President, by and with the advice and consent of the Senate. One of the two full-time Directors is designated as Chairman of the Board. The other directorship is held _ex officio_ by the Comptroller of the Currency, who is also a Presidential appointee. Directors are not permitted to hold any private banking position while in office, nor may they join a bank within two years after leaving office, except after completion of a full term.

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The Corporation has at present about 1500 employees, three-fourths of whom are assigned to the Examination Division. For purposes of administration, the country is divided into districts, each headed by a Supervising Examiner and a staff of supporting personnel, primarily bank examiners. On March 9, 1967, the Corporation announced a restructuring of our districts to provide stronger support for the Corporation's supervisory activities in the field and to enhance the effectiveness of the district offices and the field examination staff. The new districts will retain the original FDIC concept of boundaries along state lines, but the number of FDIC districts will be increased from 12 to 14. At the same time a number of changes were made in the state jurisdictions of the District Offices. These changes will become effective around July 1 of this year.

In conclusion, it should be observed that at the outset the Federal Deposit Insurance Corporation was chiefly concerned with the rescue of failed or failing banks and resumption of normal banking activities. Its activities were considered an important contribution to economic stability, but principally in a supportive role. Over the past several years, however, the Corporation has found itself operating in a significantly different environment. The difference can be ascribed in large part to the impact of the Employment Act of 1946, which set up national goals of maximum employment, production, and purchasing power. As steady progress was made toward attainment of these goals, the Corporation's sphere of activities and responsibility broadened. The changed

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environment has necessitated adoption of new ways of viewing problems and consideration of new ways of solving them. The change is one of significant import for banks and other financial institutions as well as for bank supervisors. Our responses to these recent changes have had to be more imaginative, more adaptable, and more precisely tailored to meet the particular situation and to anticipate future problems than ever before. This is the environment in which we must operate today.

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