Remarks of

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Periodic assessments of an industry's performance -- its effectiveness in discharging its functions and in solving its problems and its ability to progress -- is desirable in today's environment and even essential. Such an assessment, moreover, is most important for an industry such as yours with its origins based on the encouragement of personal thrift and with its emphasis on service to the public. The needs of the public change, and the institutional arrangements for satisfying these needs also pass through major periods of transition.

This convention provides a most valuable forum and opportunity for an assessment of your industry. Major issues -- such as the basic role of savings banks, their competitive position and capabilities, and ways to best serve the community -- have been the subject of informed comment and discussion. They are subjects deserving of our attention and concern.

This morning I should like to talk about these and related issues from the viewpoint of a bank supervisory agency. There are some dimensions that seem of particular importance to us. They are also of importance to you because we share a common interest in seeing that the individual saver is effectively and efficiently served. I hope my comments will help to provide a slightly different perspective -- but nevertheless one reflecting the Corporation's deep interest in your problems and your prospects.

Most important perhaps at this time is pending legislation affecting the savings bank industry. In October, the Subcommittee on Bank Supervision and Insurance of the House Banking and Currency Committee reported out H.R. 13718, a bill to establish a Federal system of savings banks. The latest bill is another attempt to provide for Federal chartering of savings institutions to parallel the state-chartered mutual savings bank system that now exists in 18 states. Hearings on the bill are scheduled for the middle of this month.

The Corporation has given its views on similar proposals in the past and I do not want to take your time today to discuss the most recent version. I would like instead to discuss some of the background against which legislative proposals should be projected and appraised.

The first mutual savings banks were established in the early 1800's by public spirited citizens to encourage saving by the rapidly expanding labor force in the country's developing industries. These institutions were instrumental in developing the savings habit among wage earners and in assisting in the spread of home ownership. The growth in savings held by these mutual savings banks and the increase in the number of banks testify to the effectiveness with which they fulfilled the need for such institutions. Their sound and conservative policies also stood them in good stead during the Great Depression when no mutual savings bank failed.

In recent years, however, there have been a number of basic changes in the economic environment in which you are operating. In most cases, the changes have affected all types of financial intermediaries. However, some of them have had a somewhat greater impact on your industry because of your legal structure or because of the nature and scope of your activities.

Although many of the current problems are not really new, they are to a significant extent greater in magnitude and oftentimes have more widespread geographical ramifications than they had in the past. Financial markets, moreover, have become much more closely integrated so that developments in one sector are transmitted more readily to other sectors. As a consequence of these changes, an individual institution -- or even an industry -- will discover that it is much more difficult to seek and find a solution to externally generated problems. There is less room to maneuver and less margin for error. Thus, the scope for experimentation in search of solutions is restricted at a time when the need for innovation and new approaches has become more pressing. These are constraints to which we as bank supervisors and you as bankers must adjust. They are constraints with boundaries not yet fully tested and defined. This is the challenge of our times.

Failure to recognize and adapt to the present situation is a luxury that no industry can afford today. If savings banks are not responsive to their environment and ignore the limitations imposed on them by external developments, they could find their position as financial intermediaries slowly eroded. The problem could be more serious than one of disintermediation such as we experienced on a sizable scale last year when savings moved out of banks and other thrift institutions into more attractive money market investments. The end result could be "nonintermediation" -- or the partial circumvention of banks or other financial intermediaries by the individual saver who is seeking employment for his funds.

Apathy or complacency could contribute to a deterioration in an institution's competitive position -- and its eventual demise in today's competitive environment. The best safeguard against such an outcome is alert, intelligent, and farsighted management The quality of management can spell the difference between an average bank and a good bank. Management is a somewhat elusive quality and one for which the competition is keen. Indeed, this becomes quite evident when an institution seeks to hire the services of skillful managers.

The savings bank industry must not draw back from this competition but must strive to bring into the industry the best minds available. In this way -- combined with the experience and expertise of present management -- the industry can avail itself of the opportunity to develop new ideas without discarding the best of the old and gain new insights into its proper role and goals. Choice of management is particularly crucial to the mutual savings bank industry because of its legal structure; the responsibility for maintaining the quality of management over the long pull rests heavily on the shoulders of management itself. If the industry is continually exposed to the healthy forces of competition and periodic infusions of new blood, it will be in no danger of fading away.

There are two other facets of the savings bank industry that are pertinent to a discussion of the continued viability of savings banks -- their ability to attract savings and their ability to meet changing demands for financing of economic activities. In 1966, the mutual savings banks -- like other financial intermediaries -- experienced a sharp contraction in the rate of inflow of new savings accompanied by a substantial outflow of interest-sensitive funds into more attractive investment outlets. To check further loss of funds, mutual savings banks and other savings institutions boosted the rates paid on savings -- in your industry to 5 percent in the major financial centers. Ceiling rates paid by commercial banks on consumer-type savings were lowered by the regulatory authorities and, for the first time, ceilings were established for interest rates paid by FDIC-insured mutual savings banks and insured savings and loan associations. To dampen further escalation of interest rates, the Federal regulatory agencies intervened in September 1966 to moderate the condition in accordance with their statutory powers. Fortunately, a moderation of expansionary pressures in the economy at about the same time also contributed to the checking of the excessive rate competition among financial intermediaries.

A repetition of the 1966 experience would certainly be unwelcome. The flexible interest rate ceiling authority given by Congress to the Federal supervisory agencies -- if made permanent -- would give us the ability to deal in the future with unusual circumstances before they turn into crisis proportions. Furthermore, the adoption of appropriate fiscal and monetary policies will contribute to balanced economic expansion with minimum pressure on prices and interest rates. In such a situation, it will be easier for industries such as yours to achieve a stable and balanced growth without violent swings and abrupt changes. At the same time, a steady and dependable rate of savings inflow would result in an assured supply of investable funds and more consistent portfolio policies.

With the growing sensitivity of savings to interest rate differentials, a steady inflow of new savings may have to be maintained through the introduction of new savings instruments. These instruments could be tailored to meet the requirements of the saver -- whether by maturity, rate, or other terms. Savings that are more responsive to money market influences might have to be treated on a somewhat different basis than funds held as contingency balances for a "rainy day." "Rainy day" funds tend to be insensitive to interest rate changes.

Commercial banks have resorted to the introduction of new types of consumer savings instruments paying rates higher than those on regular passbook savings and succeeded in remaining competitive in this particular segment of the savings market. Introduction of similar instruments by savings banks may enable you to remain competitive when alternative investment opportunities appear attractive and yet minimize your marginal costs. This is not the only alternative available -- and I just use it as an illustration.

I might touch briefly on the other aspect of your ability to remain competitive in today's environment -- and that is through your ability to offer financial services needed by the community and to weather changes in economic activity through a balanced asset and liability structure. The need to augment the margin of protection for depositors as your deposit volume grows -- whether through a partial retention of current earnings or from external sources may also call for renewed efforts and innovation on your part.

In addition, the savings bank industry has sought from time to time an enlargement of its lending and investment powers. A broadening of powers carries with it, however, broadened responsibilities. Willingness to assume these responsibilities is the hallmark of a mature and intelligent industry -- and, I am sure, once the decision is made, your industry will bear its added responsibilities proudly and carry them out most creditably.

I would like, nevertheless, to mention in passing some of the questions that you might ask yourselves in this connection. Your record of accomplishment in the community is excellent -- but there are no doubt certain areas not yet fully covered or new areas that have opened up that need your assistance. In addition, have you weighed deeply and thoroughly the alternative directions in which your industry might develop? Does your future lie in the direction of a "financial supermarket" of the future or should you be an institution specializing in certain types of financiing? What are the prospects for a diversified operation as opposed to one more restricted in scope? And how best should your structure evolve in order to attain whichever goal you select? Are you going to become the equivalent of a full-fledged bank -- or more like a highly specialized thrift institution? These questions cannot be answered quickly -- and I pose them here only to stimulate your thinking and mine. I urge caution in making your decision because a move in the wrong direction may only make your future progress more difficult.

In the meantime, you still have to be concerned with today -- and today's immediate problems. You can be justifiably proud of your record -- but the pace of today's world does not allow any of us to stand on our records. Continual reevaluation and improvement is a must. I think you are doing a great job because you are concentrating on the major issues.

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