Statement of
Chairman K. A. Randall
Federal Deposit Insurance Corporation
before the
Subcommittee on Financial Institutions
of the
Senate Committee on Banking and Currency
Friday, October 4, 1968

I am pleased to appear today before the Senate Subcommittee on Financial Institutions and to participate in these deliberations concerning the role that financial institutions might play in alleviating the problems of our cities.

Since the hearings today are not directed toward any specific legislation, I would like to offer a few general observations on the role of banks as corporate citizens. Banks have become increasingly conscious of their broad social responsibilities in a rapidly changing economic environment. As financial intermediaries they are strategically placed to exercise responsible leadership.

The Federal Deposit Insurance Corporation's basic responsibilities relate to the Federal deposit insurance system and to the supervision of banks in connection with these responsibilities. As a consequence, the Corporation is primarily concerned with the protection of bank depositors, and accordingly the solvency and safety of banks. The FDIC does not charter banks, although the granting of state charters sometimes is contingent upon approval for Federal deposit insurance. State banks are chartered pursuant to the laws of the individual states and Federal law provides for the chartering of national banks by the Comptroller of the Currency.

In processing applications for deposit insurance by state banks not members of the Federal Reserve System, the Corporation considers the financial history and condition of the bank, the adequacy of its capital structure, its future earnings prospects, the general character of its management, the convenience and needs of the community to be served by the bank, and the consistency of the bank's corporate powers with the purposes of the Federal Deposit Insurance Act. (National banks and state-chartered banks that are members of the Federal Reserve System acquire insured status without application to the FDIC but with the certification of the Comptroller of the Currency for national banks and of the Federal Reserve for state member banks.) If these factors are resolved in favor of the applicant bank, the Corporation is assured of a viable institution well able to discharge its responsibilities efficiently and effectively and to serve its community.

Comments that bank examiners are partly responsible for the conservative lending policies of banks -- focused for the purpose of this discussion on ghetto communities in the central cities -- reflect a misunderstanding of the nature of bank examination and the supervisory responsibilities of an insuring agency. The role of bank supervisors is to promote the public's confidence in banking and finance generally by taking the steps necessary to maintain a sound banking system. Periodic examinations of banks and their management are an important feature of this process. The field examiners ascertain the amount and character of a bank's liabilities, the nature and extent of its assets, and the amount of net sound capital. Unsafe and unsound banking practices, assets lacking in quality, or an excess of volatile deposits, for example, would all constitute appropriate instances for criticism by bank examiners. Failure of banks to maintain high banking standards would be self-defeating; they would not be satisfactorily discharging their responsibilities.

Conforming fully with the standards prescribed by Federal law for deposit insurance, a small number of banks have been established in or adjacent to predominately black ghetto areas since 1964. The initiative in establishment of these banks has been mostly local, with ownership and control likewise tending to remain in the community being served. In addition, there have been a few more other newly organized banks with racially mixed boards of directors.

Developments along these lines indicate that our system of banking can adapt to economic and social changes. Up to now, admittedly, progress in solving the problems of the ghetto ~~have~~ has been slow but given time the residents of these disadvantaged communities will be able through their own efforts and the assistance of others to strengthen the economic base of their communities and improve their economic and social well-being. Time will be needed, however, to gain the long-run benefits of educational and training efforts. The nub of the problem of concern to your committee today -- and the test for proposed solutions -- is: Will the proposed solution accelerate the process of increasing ~~the~~ economic values ~~of~~ in the ghetto and enhance the well-being of the individuals residing there?

To illustrate one facet of the basic problem and an effort by the FDIC to provide a solution, I would like to tell you about one of our programs which is designed to increase the supply of qualified and well-trained personnel versed in bank management that is also relevant to the problems of black ghetto residents.

The Corporation conducted a program for several years that may make some small contribution to an easing of the shortage of people trained to work in banks. From 1965 through 1967, we operated a summer program for Negro students and others in which these students were trained and utilized as assistant bank examiners. When the summer was over, these students returned to school to resume their education. But we are hoping that some of them will decide to join our permanent staff upon graduation or, at least, to acquaint others with the job opportunities available with the Corporation.

At the present time, we have 13 nonwhite examiners in our field examination force -- and are working to increase that number. Over the years, as our examiners become experienced, a number of them are hired by banks where their experience and training prove a most valuable asset. Our examination teams therefore constitute a pool of talent on which banks can and do draw. Banks doing business with residents of black communities can also draw from this pool -- and thereby staff their operations with trained personnel. A somewhat similar training and recruitment program is currently in operation with a college having a work-study program for the education of its students. In this instance, the Corporation provides employment in its examination force during the work terms. Furthermore, we are planning to extend this type of program to other schools.

Banks as well as the supervisory authorities will have a part to play in solving the complex of urban problems, especially with respect to the currently disadvantaged residents of black ghetto communities. Most important among our tasks is to make certain that current institutional arrangements and practices do not impede progress.

It is difficult to determine the extent to which the legitimate needs of ghetto residents for consumer credit, business loans, and mortgage financing, for example, have gone unmet. In the past, the limited volume of bank lending in the urban ghettos is largely attributable to the fact that the loan prospects of ghetto borrowers have been in fact risky and unprofitable in relation to the availability of other more attractive lending opportunities. Loan demand in recent years, moreover, has tended to be strong and interest rates high on loans that have involved very little risk.

To a considerable degree, institutional lenders applied credit standards -- not necessarily unreasonable ones -- that had the effect of excluding a large share of the ghetto community. Where individual borrowers were involved, such factors as low income, spotty employment records and high mobility in effect excluded many potential borrowers.

Although loan denials because of race have not generally been the result of deliberate bank or institutional policies, racial discrimination in the banking business is rapidly disappearing, and many banks are actively seeking out Negro borrowers or extending their activities deliberately to areas not previously served, and developing programs to hire and train ghetto residents for banking positions.

The Housing and Urban Development Act of 1968, signed into law on August 1, 1968, contains a number of provisions that are designed to ameliorate some of the problems of housing in ghetto areas. Two sections in particular endeavor to minimize the risk incurred by lenders in the ghetto area: (1) the extension of FHA insurance facilities to owner-occupied two-to-four family properties for all low- and moderate-income families and (2) measures to assure the availability of adequate property insurance to property owners in inner city areas and reinsurance of abnormally high losses due to riots or civil disorder. These two provisions should encourage bank lending by reducing the risk of the lender. Moreover, the bank supervisory authorities in the course of their examining activities will give proper consideration to these risk-reducing arrangements in the process of determining the suitability of an individual loan for a bank's portfolio.

To sum up banks exercise financial leadership in the community and thus can contribute to solving the urban crisis and the problem of the ghettos. But they can do so most effectively only if they continue to maintain safe and sound operations. At the FDIC, we are continually reexamining our procedures and practices to make certain that barriers to economic and social progress do not exist -- through inadvertence or otherwise.