FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

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A WASHINGTON PERSPECTIVE FOR THE NEW YORK MUTUAL

Remarks of

Frank Wille, Chairman
Federal Deposit Insurance Corporation
(New York State Superintendent of Banks 1964-1970)

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Before the

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of

Savings Banks Association of New York State

The Greenbrier
White Sulphur Springs, West Virginia

Two years ago at your 1969 Annual Fall Convention, I expressed considerable optimism as to the future of the New York savings bank, based on a growing recognition in the State Legislature and elsewhere that the public interest is best served by laws and supervisory policies that encourage more competition and more innovation in the provision of financial services, rather than less. The experience gained in New York State during the Sixties, with increased branching and merging activity on the part of both commercial banks and mutual savings banks over wider and wider geographic areas, was partly responsible for this, since that activity had provided the public with demonstrable advantages in terms of convenience, range of service, choice of alternatives and cost, while disproving predictions of "destructive competition" and "over banking." A further, and more liberal, extension of such merging and branching authority in New York was clearly in order, and I commend Senator Conklin, Chairman of the Senate Banks Committee, Superintendent of Banks Dentzer, and all those who saw the opportunity and justification for dramatic change in the competitive structure of New York banking and worked hard to make it happen at the 1971 Legislative Session.

Another by-product of this change in attitude has been a substantial improvement in the ability of New York savings banks to compete for deposits, the raw material on which lending and investment decisions depend. Day-of-deposit-to-day-of-withdrawal accounts, first authorized for your institutions in 1968, continue to increase in popularity. Last year's Legislature extended to five years the maximum term of the new time accounts you were previously authorized to offer, and this year's Legislature eliminated altogether the statutory ceiling on the deposit amount in an individual account. These deposit changes provide your institutions with a new flexibility in attempting to counteract time deposit competition from commercial banks, or the urge to withdraw for more attractive investments in periods of tight money, but the use of these special accounts may also require careful planning of asset yields. On this score, the authorization by the 1971 Legislature of cooperative apartment loans and mobile home loans at yields higher than those available on mortgage loans should prove helpful, along with the previously authorized home improvement and education loans.

Deposit growth in the New York savings bank system has been almost as impressive over the last year as your legislative success. And when this recent history is laid out along side the potentials for growth open to you under the new State branching and merging law, the confident prediction contained in your Convention slogan -- The First 50 Billion -- seems not at all misplaced.

At the national level, there is a conscious hiatus in the consideration of legislation affecting the powers and responsibilities of savings banks and other types of banking institutions. Congress is preoccupied -- and properly so -- with all aspects of the President's new economic program: the international repercussions of floating currencies and our 10 percent surcharge; the effectiveness of the 90-day wage-price freeze which is due to expire next week; the way in which the Phase II program of wage and price restraint, and economic stabilization generally, will be administered; the President's request for a one-year extension of existing stabilization authority, with standby controls over interest rates and dividends; and tax proposals designed to stimulate the economy through larger capital expenditures by American business and greater consumer spending by the average citizen.

One aspect of the Phase II program is a special Committee on Interest Rates and Dividends, established by the President to "formulate and execute a program for obtaining voluntary restraints on interest rates and dividends." This Committee is chaired by Arthur Burns and includes among its members Secretary Connally, Secretary Romney, Secretary Stans, Chairman Martin of the Federal Home Loan Bank Board and myself. Under present law, the Committee has no power to control corporate dividends or interest rates charged to borrowers, but this power may be granted to the Committee if the President's request for standby controls is honored. We are monitoring dividends and interest rates at the present time, with particular reference to mortgage and consumer loan rates. The Committee does not consider its oversight functions, however, to extend to the rates you pay depositors. Such payments are governed, and will continue to be governed, by the Regulation Q ceilings promulgated by the agency with that specific responsibility under the law -- that is to say, the Federal Reserve Board for member banks, the FDIC for mutual savings banks and other State nonmember banks, and the Federal Home Loan Bank Board for Federally-insured savings and loan associations (each of which acts independently after consulting with the others). In other words, if an institution is not paying depositors the maximum rate authorized under Regulation Q for regular passbook savings or if an institution offers no certificate accounts or certificate accounts at less than the authorized ceilings, upward changes in rate can be made or a deposit instrument offered for the first time without fear of violating any guideline of the Committee. The Committee does hope, however, to influence the interest rates charged to borrowers without utilizing any standby authority that may be granted, just as it hopes to restrict increases in corporate dividends, on a voluntary basis, to the 4 percent level announced earlier this week. Many key interest rates have come down in the past three months, and the prime rate was again reduced yesterday. We expect reductions to occur as well in mortgage and consumer loan rates in the months ahead.

Even if it were not preoccupied with matters of economic policy, the Congress appears disposed to wait in any event for the recommendations of the Presidential Commission on Financial Structure and Regulation before enacting any new legislation affecting the powers and responsibilities of financial institutions. The regulatory agencies and industry associations that might normally be expected to propose similar items of legislation are inhibited from presenting their proposals for the same reason. Assuming a Commission report on schedule and prior to the end of the year, I would expect considerable comment on its recommendations to follow, and a lengthy period to elapse before Congress acts on any recommendations that require its approval. Only time will tell whether Congressional action is likely at the 1972 Session -- a year when economic considerations and presidential politicking may be foremost on the Congressional agenda.

The Presidential Commission was established to make "a thorough examination of needed changes in our financial institutions and our regulatory structure" in accordance with a recommendation made in the President's 1970 Economic Report. That Report was issued by the Council of Economic Advisers three years after the experience financial institutions had with the 1966 credit crunch and after disintermediation was again evident in 1969 and early 1970. In its opinion, as expressed at that time:

> "Mortgage financing and the role of interest ceilings need reexamination. Savings ... associations need greater flexibility to adapt to market developments, and new sources

of funds for the mortgage market need to be devised. Given the consequences of four decades of deposit-rate ceilings, they cannot be suddenly removed without serious financial disruptions. Some basic reforms in financial regulations are, however, needed.

"Our expanding and increasingly complex economy must have financial institutions reflecting the vitality that comes from vigorous innovation and competition. Financial services required by tomorrow's economy will differ in as yet undefinable ways from those appropriate today.

"The demands on our flow of national savings will be heavy in the years ahead, and our financial institutions and financial structure must have the flexibility that will permit a sensitive response to changing demands."

The Commission is known to be wrestling with all of these inter-related facets of our financial structure. I am hopeful that its final report will also make a significant contribution toward resolving the basic long-term question with which the savings and loan industry and, to a lesser extent, the savings bank industry is faced today: should thrift institutions remain relatively specialized in authorized powers in order to help the allocation of credit to particular sectors of the economy like housing, or should they become more generalized, full service institutions like commercial banks, precisely because they are unable to allocate funds at all unless they can attract them in an increasingly competitive deposit market?

If the Commission recommends that savings banks and savings and loan associations become more generalized, full-service institutions, I would expect that recommendation to be accompanied by several others: first, an eventual removal of the present differentials between mutuals and commercial banks in Regulation Q ceilings; second, a greater equality in operating conditions and tax burdens between mutuals and commercial banks; and third, new incentives to encourage housing loans equally applicable to commercial banks as well as mutuals. Such an institutional structure would immediately suggest the feasibility of consolidating at least some of the activities presently performed by two or more of the four different regulatory agencies at the Federal level. For example, the deposit insurance and liquidation functions of the FDIC and FSLIC might be consolidated, along with their insurance funds. Or the examining functions of all four agencies might be consolidated into one agency or possibly two (one for stock institutions and one for mutuals).

If the Commission recommends that mutual thrift institutions remain relatively specialized in authorized powers, I could personally support asset and liability powers even broader than those now available to New York savings banks. I see, for example, both service and cost advantages to the public, and income advantages to the lending institution, if mutual thrift institutions are authorized to make unsecured personal loans up to a limited percentage of their assets. And there may be other powers that meet this same test of public advantage. Such an outcome to the Commission's deliberations would make the elimination of Regulation Q differentials between mutuals and commercial banks and a consolidation of agency functions more difficult, but by no means impossible.

We at FDIC intend to approach the recommendations of the Presidential Commission with an open mind, even if they involve a realignment of our own functions and activities. What we seek are financial institutions strong enough to withstand changes in economic conditions, sufficiently empowered to compete vigorously with each other, capable of innovation and able to bring the full range of financial services to the public at the lowest possible cost. These are the same considerations that have guided public officials and thoughtful leaders of your industry for many years in New York State. I think we will be fortunate if we can do as well at the national level.

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