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"TRENDS IN MUTUAL SAVINGS BANKING"

Address Of

JESSE P. WOLCOTT, CHAIRMAN

FEDERAL DEPOSIT INSURANCE CORPORATION

Before The

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THE SAVINGS' BANKS ASSOCIATION OF CONNECTICUT

White Sulphur Springs, West Virginia

October 9, 1959

"TRENDS IN MUTUAL SAVINGS BANKING"

It is a sincere pleasure to be with you on this occasion. To me, at least, this is a memorable meeting, because it marks the beginning of what I confidently believe will be a long and fruitful association between your banks and the Corporation. This time next year, if everything goes as expected, your depositors will be insured by the Federal Deposit Insurance Corporation. That, as you know, represents a considerable change in a long-standing situation, and leaves your neighboring State of Massachusetts with the only remaining State system for the insurance of bank deposits.

A few of you may still be uneasy about this prospective event; for it means exposing yourself to the regulations of yet another supervisor, and that a Federal one. I would like, if I could, to allay whatever fears you may entertain.

We know that each one of you has given long and careful consideration to the prospect of becoming insured by the Corporation , and we treasure, along with you, the voluntary nature of our association. For our part, we are looking forward to including you in Federal deposit insurance, because we deeply believe that all bank depositors deserve the protection which our Corporation alone is able to give. The more complete this protection becomes, the less vulnerable our economy is to bank failures and their corrosive effects upon public confidence.

More than one-half of all mutual savings banks are now insured by the Corporation; and in terms of deposits the proportion is much larger, as over four-fifths of all savings bank deposits are in insured banks. With the recent admission of the mutual savings banks in New Hampshire to Federal deposit insurance, 268 are now insured, leaving 250 uninsured by the Corporation. Deposits of insured mutual savings banks total $28 billion, and of the noninsured banks, $6 billion.

In fulfilling its examination and related supervisory responsibilities, the Corporation necessarily requires that banks adhere to certain standards; to do otherwise would invite the collapse of the insurance undertaking. But in the exercise of these responsibilities we do not go beyond our function as an insurer, cognizant always of the fact that it is the chartering authority rather than the Corporation which has the primary obligation of securing compliance with the law and observance of sound banking principles. Our responsibility is to protect the depositors without, of course, relieving banks of their own responsibility in this area. Our limited supervisory powers are intended to promote good banking, and to eliminate or so reduce bad banking that our independent banking system may never again be endangered as it was in the depression crises of the past.

If you are poised for new kinds of harassment upon becoming insured, we believe that you will find such anxiety groundless. In doing its job the Corporation has always been aware of the fact that its regulations and examinations necessarily entail some burden upon and interference with a bank's operation, and has consciously tried to minimize such effects. A recent example of this is our proposed new formula for computing assessments. This formula attempts to adapt the definition of deposits for assessment purposes to data on deposits readily at hand, thereby doing away with added paper work without, however, penalizing banks which might benefit from the present more laborious computation. At our main point of contact, that is during examinations, you will see little change from what you are accustomed to, since we try when at all possible to make our examinations concurrently with the State examiners. And I want to add that our relationship with the Connecticut Bank Commissioner and his staff is a very cordial and constructive one; we look forward to more intimate association with them. The excellent job they have been doing is most reassuring to us as we assume added insurance obligations in the State.

The spirit of confidence and self-assurance which I have detected in my conversations with many of you might strike an outsider as incongruous. For many of the problems which agitate the financial world these days come to a focus in the situation which confronts the mutual savings banks. The fact that several of your fellow banks have recently dropped their membership in the American Bankers Association is a symptom of strife within the industry, a development that all friends of banking deplore. This particular development appears to be an outgrowth of the relative treatments, tax-wise, of commercial and mutual savings banks, which in turn involves questions concerning the respective natures of the two types of banks. But the different concepts of ownership -- mutual versus stock ownership -- which underlie this controversy are only one of several problems which afflict the industry.

The leading ones may be quickly enumerated: the character of our economic development has made the question of branches more and more acute; the increase in mergers among banks generally has effects which you cannot escape; the extension of monetary controls to savings banks advocated by some who regard it as a means of plugging a serious gap in the arsenal of controls, raises important conceptual questions; the proposal to bring dual banking to savings banks by making a Federal charter available adds another uncertainty as well as an exciting possibility for expansion of your system; the decline in surplus along with impaired liquidity limits the alternatives available to many of you in your operations; overhanging all these problems is the crucial one of how to meet the competition of other institutions which have challenged your pioneering position as the cultivator of thrift and the champion of savings.

As we ponder the relationship of these problems to savings banks, trying to find a common denominator, it becomes apparent that each one is an outgrowth of an increasingly competitive relationship among different types of financial institutions. While such a condition may be disturbing to some, we must recognize that diversity and competition are the very essence of our enterprise system. We might have reason to be upset if the problems reflected a trend toward monopoly in the financial sector of our economy; or if they foretold a weakening of our banking system; or if they suggested a growing incompetence in management, or a betrayal of the confidence long accorded to trustees, or an indifference to the public interest. Happily, these elements appear to be minor compared with the encompassing character of the torrid competition for savings.

Looking back over the 150 years since their philanthropic beginning as an institution for the relief of poverty and the encouragement of provident habits among the emerging industrial workers, the record of savings banks is one of steady growth. In the course of their development they have become the haven of large savers as well as small savers, and the nature of their investments has changed with their environment and changing State regulations. But the growth has continued unabated. Deposits have increased from about $5 billion in 1920 to a current figure of nearly $35 billion; during the last ten years they have nearly doubled. Remarkable as the rate of growth has been during the last decade, it has been somewhat less than satisfactory to many savings bankers.

Before saying anything more about rates of growth, let me emphasize that, in my opinion, zeal for growth can sometimes distort our sense of values and cause it to be purchased at too high a price. This, unfortunately, appears to be happening in some cases where dividend rates have been raised to levels unjustified by the earnings position of the institution. The depressing effects of such practices upon earnings are aggravated by the fact that deposits which respond readily to rate differentials do not remain long as they flit about in constant pursuit of the highest dividend rates, thereby making it more difficult for the affected banks to maintain a rational investment policy. Able to obtain cash from their holdings of U.S. Government obligations only by taking a substantial loss, many banks would be hard put to meet a heavy withdrawal of deposits without dipping deeply into their surplus and reserves.

The ready answer to this dilemma is to have ever increasing deposits, but not at the peril of unsustainable rates whose effectiveness in any case would likely be only temporary. It is not sound to let the desire for deposit growth determine the dividend policy. Where deposit growth has steadily diluted the margin of protection available to depositors, trustees would do well to review the dividend policy and asset structure of their bank. The responsibilities of trustees are heavy at best, and under the circumstances I have just outlined I do not envy their lot.

During the last decade mutual savings banks have just about held their own among thrift institutions, growing more rapidly than some and less rapidly than others. Their rate of growth has been a little greater than the increase in savings accounts of commercial banks, many of which have never specialized in attracting savings. It is about the same as the rate of increase in the reserves of life insurance companies, a quiet but effective competitor for savings. And it is a markedly lower rate of growth than recorded by savings and loan associations or credit unions, whose holdings of savings increased about 4 times and 6 times, respectively, in the last ten years.

These disparate rates of growth among financial sectors of different sizes and at different stages of development have barely affected the proportion of total savings held by mutual savings banks in the last decade; it has remained at a relatively constant 11 or 12 percent of total savings. Creditable as this is, it represents some decline from their earlier stature; twenty years ago, for example, they held 18 percent of total savings, and forty years ago, 20 percent. That savings banks have not shared proportionately in the renaissance of thrift is due to a number of factors, some of them accidental, and others a consequence of a complacency unusual among business institutions.

Different segments of our economy experience different rates of growth; and in general it is the newer and less developed areas which grow most rapidly. Savings banks chanced to be established at a cross-roads of history. First founded in the early 19th century as a haven for the small savings of industrial workers, they were confined pretty much to our northeastern States. When the first savings bank began operation in Philadelphia in 1816, followed soon by others in Boston and New York, commerce and industry were concentrated along the eastern coast. Elsewhere, agriculture was the predominant activity, and among farmers there was less need for savings banks. By the time industry developed in other parts of the country, and the need arose there too for places to put savings, other types of institutions had been devised, reflecting again the American penchant for diversity in its institutions.

As a result of this pattern of development, the areas which chance has allocated to savings banks have in recent years and decades experienced a relatively less rapid rate of growth. Though savings banks may, and in some cases do draw savings from and make investments in distant States, their principal service is to their own and nearby communities. Thus their growth experience reflects to a large degree the experience of the local economy. The fact that they are in a later stage of development, and that the rate of growth declines with approaching maturity, is also a factor in their relatively slower recent rate of growth.

The competitive position of savings banks has been weakened by another consideration which is uniquely characteristic of industry. You have never been one to blow your horn, to publicize your services, to claim your privileges. You have been content with your performance, satisfied that your qualities and your services speak for themselves. You have even declined on occasion to embrace measures designed to broaden your rights and authority and so improve your competitive position, possibly showing a prudence and a concern not evident to your would-be helpers. These are admirable qualities, bespeaking a humility worthy of the philanthropic purposes behind your establishment. But they also bespeak complacency and are not necessarily the kind of qualities which win customers, spread understanding of your contribution to our economy, or build a following ready to rush to your support when political winds foretell bad weather.

Your vulnerability to more aggressive organizations is aggravated by your exposed position in the land of finance. Possessing some of the attributes of each of your major competitors, you are yet unable to claim any as your natural ally, and tend to be the victim of such in-fighting as exists. Like commercial banks, you are banks of deposit, a characteristic which defines many of your common privileges and liabilities without, however, precluding recognition of certain differences. On the other hand, your structure as mutual institutions along with your emphasis upon savings and investments in home mortgages results in certain similarities with savings and loan associations. In your investments as well as in your structure as a mutual institution you show some of the attributes of mutual life insurance companies for which, however, the purpose of saving is mixed with actuarial principles. Credit unions also share with you the principle of mutuality and the mobilization of small savings but, unlike you, direct their investments mostly to personal and consumer loans. Comingled with the precepts and practices of these diverse institutions, it is understandable that you sometimes seem to wonder in which direction your destiny lies.

In all this confusion of structure and activity there is one common and reassuring element. It is as fundamental as it is simple. It is simply that the need to mobilize savings and to allocate them wisely among the many competing demands is great enough to accommodate, indeed, require, the talents of every person and institution engaged in the business. As the historic apostles of the importance of thrift, savings banks have a message which was never more timely.

There was a time, not too long ago, when savings were regarded as evidence of stagnation, and the person who saved was criticized as being anti-social. That period, however, was a mere interlude, for it has long been understood that savings are essential if we are to have economic growth without inflation. The pendulum has swung back toward renewed recognition of the time-honored gospel of thrift. Once again it is fashionable to affirm, with Franklin, that "A penny saved is a penny earned."

Indeed, saving is much more than respectable; it has become a matter of great urgency. On the international front, we need savings to build such industrial and military power as will insure our security. On the home front, a galaxy of competing demands for houses, factories, highways, education, automobiles and the myriad of things that make up our unequalled and still increasing level of living require more and more savings. At the same time, our source of savings is being threatened by serious erosion of the reward for it. Increasing prices which devour the interest earned on savings may not only dry up the reservoir but also induce expectations which may well culminate in continuing inflation. In this circumstance of a mounting need for savings and a diminished incentive to save lies a challenge seldom equalled in our history.

If savings banks are to share as they should in the growth of savings which we need and expect, they must recapture some of the sense of purpose that animated their early founders. Certainly the circumstances of their origin have changed. No longer are they benevolent societies with a paternalistic bent dedicated principally to the prevention of pauperism; the poor laboring class to whose welfare they were originally consecrated no longer exists.

To whom, then, might they direct their appeal? Why not the vast and affluent the rich and abundant middle class? Certainly provident habits are as necessary as ever, and your work with school savings and other special purpose savings should stand you well in developing this area. Savings for college education is a relatively new field that appears to be ready for more intensive cultivation. On the investment side, the great contribution you have made to the spread of home ownership is only the beginning of a type of service which could give renewed purpose to the industry; to finance the home furnishings would be a logical step in development. By putting the old wine of thrift into the new bottles of family needs, you would help generate the savings our economy needs and on which you yourself depend for your growth. Dedicated as you are to the mobilization of savings and pioneers in the art of using them effectively, no financial group is more favorably situated to meet a need tailored so closely to its character and experience.

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Notes added in pencil by Mr. Walcott

Pleased to be with you.

We look forward to years of constructive accomplishments; we are pleased that you are welcoming us as partners in these in these great undertakings which will we know enrich your effectiveness in making our financial institutions sounder and more potent in our mutual endeavors to effectuate a sounder more healthy economy, one which will buffer all onslaughts, foreign and domestic and make our government a greater and more effective symbol and influence of and in assuring worldwide peace and greater prosperity.