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LOOKING AT OUR COMMON PROBLEMS

By

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Before

WEST VIRGINIA BANKERS ASSOCIATION

CHARLESTON, WEST VIRGINIA

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Your invitation to be with you today is especially welcome, representing as you do another of the State Associations which has done so much to promote a keen sense of public responsibility in the field of banking.

I welcome, too, the prospect of renewing many warm friendships and the opportunity of discussing some of our common problems in banking.

Let me remark briefly on the fine cooperation and spirit of helpfulness being extended to our examination staff here in West Virginia by the State Banking Department. I know that Robert McLeod, our supervising examiner, has been generally pleased with the relationship that exists here, and has told me so on several occasions.

This is, in truth, "America's most scenic vacationland". And beyond the vacation splendor that meets the eye at every turn West Virginia has a great number of other assets. Your State is moving forward toward a more balanced industrial growth through diversification in the chemical, mineral and lumber industries, and I believe your State ranks first, before all states, in glass and pottery production.

Right along with all of these achievements I find, too, that the bankers of this State have paid close attention to the credit needs of individuals, business, agriculture and industry, in an effort to help build a sound economic base for West Virginia.

Now after these compliments for West Virginia, let me turn the pages of my talk to the problems facing us as bankers and businessmen in the years immediately ahead.

I shall divide my remarks into three general areas:

First, bank management;

Second, our inter-relationship;

And, finally, a capsule review of national legislation in our field.

Now BANK MANAGEMENT.

Just last week I read in one of our leading banking publications of the tremendous and growing need for management personnel in our financial institutions. The needs have been estimated to range all the way from 30,000 new top level management men to 50,000 within the next two or three years.

A weakness, if it can be described as such, in our business is the developing lack of trained and experienced personnel to replace senior level officers on the threshold of retirement. Most of these "old timers" now ready to retire, weathered the dark and cloudy financial storms of the depression years. They learned the hard way, through practical experience, how to run a good bank. I take my hat off to those of you who fit this category -- to the old timers in banking. We owe you a debt of gratitude for the way in which you have kept the banking business on an even keel, through war and peace, through good and bad times.

However, I am sure that you will agree with me that good bank management consists of more than mere expertness in the routine aspects of running a bank. I think it demands the three essential qualities of: (1) technical competence; (2) economic understanding; and, (3) conscientious responsibility. Weak or bad bank management will result from weakness in any of these overriding qualities -- and the early bank failures of the 1920's and 1930's presented many instances where banks were wrecked by management which lacked either sound conscience, competent technique or economic understanding.

Today bank management -- the young people who are coming into the business -- must understand economic conditions and fortify themselves as far as possible with technological and economic knowledge, in order to wisely cope with the changes which occur in a free market economy. Herein lies a job for the old timers -- to pass along the accumulated knowledge that has been gained through experience to the young men and women coming into banking today.

But beyond this legacy of knowledge, we must also strive to develop better techniques to meet the problems and financial demands that face us in our communities -- or, in the end, lose our position of leadership in the world of finance to other, more aggressive, financial institutions, or to governmental programs dedicated to solving these same problems.

Banks recognize the need for interested and responsible directors -- but let's not forget another important requirement: a competent and well-schooled staff. We must make sure that replacements are in prospect and in training for responsibilities that they, in time, will be expected to assume.

To find the caliber of personnel needed by banks, careers in banking must be made attractive and challenging.

Banks must pay the going rate to attract and keep the high type of personnel which has so long gravitated in their direction. A definite promotion policy should be worked out by the bank. There should be opportunities for prospective junior management men to participate in the making of decisions, to work on special projects, to be heard, and to obtain prestige on the job. Banking has long been known for its enlightened attitude toward fringe benefits and educational opportunities. These are strong points for a banking career and should be continued.

We know that the need for seasoned top level management personnel will double in the next 15 to 20 years, and banks able to fill their need for competent and trained managers will be those which begin now to plan for the future.

Let me point out another problem which plagues us from time to time. That is the lack of internal security in your bank. Now the problems of bank defalcation and robbery will be covered quite adequately by another speaker, Mr. Evans, but I want to add my own thoughts to those already presented. Over the past few years the chief causes of bank failures and closings have been defalcation and embezzlement. These failures, in great measure, reflected a lack of internal protection and an inadequate system of controls and audit. There are yet some bankers who feel that an annual examination by one of the supervisory authorities can somehow serve as an effective audit, a delusion that all supervisory agencies have sought to dispel.

Records show that bank embezzlements are on the increase. Millions of dollars are taken each year; but it is not possible to make an accurate estimate of the loss sustained because many of the shortages have existed, though concealed, for years.

In the last calendar year a total of 1,632 banks reported embezzlements to the Federal Bureau of Investigation. A total of at least $13 million was involved. There were 349 convictions. This total is in contrast to 1955, when there were 260 convictions, with an estimated shortage involved of $4.5 million, involving 1,168 banks.

Motives for embezzlers' activities are many and varied; but whatever they may be, good internal controls are certainly helpful in reducing this problem.

I say again, there is no substitute for continuing internal controls, and I urge you to apply all the known preventative internal security measures to insure the safe and sound continuance of your bank.

OUR INTER-RELATIONSHIP.

In turning to the inter-relationship between the Federal Deposit Insurance Corporation and banks I want to tell you that your deposit insurance membership record is good. In fact, there are only two noninsured banks in West Virginia, so it is quite evident that you have taken advantage of the value of Federal deposit insurance.

Although we desire to extend insurance to all eligible banks, we do rely on the principle of voluntary membership in the Corporation, which has proven to be the most satisfactory.

Since we are so close in our relationships, I needn't tell you that the fundamental objective of the Corporation is a sound banking system: a sound banking system which is in a position to meet its liabilities without difficulty, but which is also in a position to serve the legitimate credit demands which are made upon it.

So far as you are concerned, a sound banking system means strong banking units with sound assets, with adequate capital, operated in harmony with sound banking principles and in accordance with the banking laws and regulations; in other words, a system composed of banks in strong financial condition, under proper management.

You may notice my remarks today have emphasized good management. I intend to make the point frequently to stress that supervision is no substitute for good management and cannot, of itself, insure the maintenance of a sound banking system. It can only contribute to that end.

Within this finance industry of which we are a part, the Federal Deposit Insurance Corporation has earned a most enviable reputation. We are proud of our achievements, and humbled by our successes, and we seek advice and accept it judiciously. We try to answer your questions by explaining reasons, rather than by sending you a copy of regulations. We always seek your active cooperation and understanding.

I believe Aristotle brought up this matter of understanding and appreciation several centuries ago, when he said: "The environment is complex and man's political capacity is simple. Can a bridge be built between them?"

The foundation stones for Aristotle's bridge must be information, candor, and continuous reporting to the citizens.

Through these foundation stones a bridge can be built.

In our form of government, more than in any other, the bridge of understanding and support depends on information and the interest of the people.

Now the Federal Deposit Insurance Corporation is threatened with the loss of its independence. Legislative proposals are pending before Congress which would remove the Corporation's flexibility and independence. The Corporation has vigorously opposed the notion that it should become a step-child of the Executive Branch of Government under the Budget Bureau.

We rightfully contend that the Corporation, having the responsibility for the protection of the nation's money supply, should be independent while remaining within the framework of the Government. The Corporation must be a part of Government in order to escape private pressures; yet, within the Government, it must be free of political pressures.

Can Aristotle's bridge be built here?

The independent status of the Corporation must be continued. Will you show the leadership necessary to uphold this independence? I trust that you will agree with me that the Corporation must be free at all times to use its techniques when and if an emergency occurs -- an event that we all hope will never happen.

I like to think that the margin between success and failure is a narrow one. This margin can only be bridged by mutual concern and cooperative effort.

NATIONAL LEGISLATION.

Since I have maneuvered myself into a discussion of legislation -- something which comes to me quite naturally after having served in the Congress for 26 years -- I shall take up my third point: national legislation.

The Congress that recessed just a few days ago has not yet finished its work. More than 17,000 bills and resolutions were introduced during the 86th Congress. Out of this maze of legislative thinking, I would estimate that more than 100 bills could be labelled as banking and finance proposals. Some of these ideas are well thought out, others are the pet schemes of planners and pressure groups. Only a small fraction of all these bills will be able to survive the delays, referrals, committee hearings and opposition that wells up when a bill finally comes to the floor of either House of Congress.

Some of the proposals are well ahead of their time; others are keyed to today's circumstances and political trends. As history shows, the deposit insurance idea first came to light as a legislative proposal in the 49th Congress, back in 1886 -- and was not enacted into law until 1933. About 150 bills were introduced during the 47-year period between the conception of the idea and the final enactment of the proposal in the form of the Federal Deposit Insurance Act.

Banking has traditionally been recognized as a business which has close public interest ties, and which is peculiarly subject to examination and regulation. In fact, both Houses of Congress early recognized the importance of the field by creating standing committees on Banking and Currency. To these committees come the matters which will eventually affect your business, and which will affect the supervisory agencies.

This session of Congress, following the leadership of both of its Banking and Currency committees, enacted legislation which will have addirect impact on your bank operations and the work of the Corporation.

I am sure that you know of the enactment into law of the bank merger bill, which amended the Federal Deposit Insurance Act to provide safeguards against mergers and consolidations of banks, where there might be a lessening of competition or the tendency to create a monopoly.

We were pleased, too, with the forthright and timely action on the assessment bill, an idea proposed by the Corporation a number of years ago to simplify your task of determining and computing your semi-annual certified statement and assessment return.

The enactment of this proposal by the Congress will help you to reduce your paper work, financial cost and man-hour requirements for the computation of assessments. In addition, it will now be possible for the Corporation to reduce its audit costs, and to complete an annual verification on assessments reported by the banks. In the past we have audited on a selective basis only about 1000 banks, out of the more than 13,000 insured institutions, over a three-year period.

I would like to discuss some of the proposals pending before Congress which have not fared too well, but which might be revived and given attention in the future.

The status of the Corporation is continually under Congressional fire as I have already told you. Some of these proposals would enlarge the Board of Directors from three to five members; another bill would prohibit the Comptroller of the Currency and any members of the Board of Governors or staff of the Federal Reserve System from serving on the Corporation's board.

Another bill proposed this session of Congress would require public hearings prior to determination and actions of the board on applications coming before it on such matters as admitting banks to insured status and the opening of branches.

The question of branches comes up in another bill, which would require the consent of the Corporation for the establishment of a branch by any insured State or National bank, and for the establishment of a branch by a State bank which is a member of the Federal Reserve System. This same bill requires consent of the Comptroller of the Currency for the establishment of a branch of a National bank.

There has been proposed a plan to allow all banks to join the Federal Reserve System upon payment of a nominal fee of $10. Bank holding company operations would be limited by a bill prohibiting the approval of such operations where they are opposed by State authority.

There are proposals for a national system of mutual savings banks, a central credit union facility, and equality of taxation among financial institutions.

There are bills which would amend the Employment Act to make stability of prices an explicit aim of government economic policy; then, there are bills which would remove the current 4¼ percent ceiling on long-term government bonds; and still another bill would require all lenders to state separately the finance charges on loans, both on amount and in terms of the simple rate of interest.

Few of these bills I have mentioned have been enacted into law, although some continue to make progress. In the field of banking I feel that we have fared well during the 86th Congress. This is due in great measure to the bringing up to date and recodification work undertaken by the Senate Banking and Currency Committee under the leadership of Senator Willis

Robertson of Virginia, chairman of the Committee.

His sponsorship of the Financial Institutions Act of 1957 and continued attention to the need for modernized laws and regulations stand as landmarks for banking legislation.

Although the Financial Institutions Act did not receive consideration by the House, the Act did serve as the base point from which Congress went ahead with a "piecemeal" updating of laws affecting banking. In quick order, bills were passed to liberalize the lending powers of National banks; reserve requirements of Federal Reserve member banks were reduced in certain areas and under certain conditions. The relationship of savings and loan associations to holding companies has now been defined. The Federal Credit Union Act has been amended. Other bits and pieces of the Financial Institutions Act of 1957 have been picked up in other bills and enacted into law, or are today moving forward as items separated from the former omnibus bill.

I earlier mentioned other bills more directly concerned with Federal Deposit Insurance Corporation which were enacted into law this past year.

So, in any summing up, we can safely conclude that we have had two good years on The Hill in Washington.

But in this cheerful report I must add one somber note. Based on my own experience in Congress, and from first-hand observation, I would say that the banking fraternity has fared well; however, there are many ideas, plans or bills proposed, or on the legislative drafting boards, which could seriously affect the banking business.

Not all of these proposals will see the light of a Congressional Committee hearing or get to the floor of the House or Senate for consideration; but some will survive the long and difficult journey to the President's desk and will be enacted into law. In order to carry out your responsibilities as a good citizen and banker in your community you should be aware of these proposals and legislative developments. Being well-informed, articulate and active in your community on state and national affairs is one of your civic responsibilities which should not be overlooked.

As bankers dedicated to the general welfare, with certain public responsibilities and community leadership duties, you must re-dedicate yourself to the belief that private commercial banking is the principal banking system for this country, and that within our nation's finance industry we all have a great number of interests in common.

To survive in the world of business we must serve, and to serve we must put aside the minor differences that from time to time divide us. We must look forward to the larger goal of maintaining a sound, free and independent financial system for the overall good of the nation's economy.

After looking closely at our common problems in banking, let me sum up my talk by again stressing the need for continued attention to the developing problems of good bank management. I want to re-emphasize the important role that you play in the vital work of the Federal Deposit Insurance Corporation's efforts to safeguard the money supply by maintaining a stable banking system and thereby promoting a sound financial economy. And, finally, I want to add to my remarks on national legislation the hope that you will become more completely concerned with the dynamics of public affairs.

Your judgment and action on these three important matters will do much to shape the future of the banking iddustry.

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