LOOKING BACK: BANKS AND BANKING IN THE BROWN-STRICKLAND ERA
Remarks by Robert P. Forrestal
President and Chief Executive Officer
Federal Reserve Bank of Atlanta
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Good evening, ladies and gentlemen. I could not be more delighted to be here tonight to celebrate the induction of Bennett Brown and Robert Strickland into Georgia State University's Business Hall of Fame. When John Hogan asked me to set the historical context for this event by talking about how banking has changed during the careers of these two men, I thought I would focus my remarks on Bennett and Bob's more recent past, starting in the 1950s up to the present day.

Actually, in this business, it is uncommon for any of us to take much time to look back. Usually bankers worry more about the future: the future financial status of the customers to whom they have made loans, the future levels of interest rates set by the Federal Reserve--no, you will not be getting any clues from me this evening--and the future of the banking industry, in general. In my position as a central banker, too, more often than not, I am dealing with statistics and data that try to divine the future. Will consumers start spending more? Will housing construction take off? Have purchasing managers decided to purchase more and, if so, will they keep purchasing? Each of these considerations and many more go into the forecasts we develop in conjunction with formulating monetary policy for the nation.

Tonight, though, we will ignore the uncertain future and go back instead to the misty past when Bob and Bennett first joined the banking fraternity--which, I am pleased to say, during their tenures has become more of a banking sorority as well. In the early '50s, Bob was in Atlanta working his way up the lower rungs of the ladder at Trust Co. and getting his law degree. Through the 1960s, he was promoted until he became president in 1973. Bennett joined Citizens and Southern National Bank in Augusta in 1955, after having begun his illustrious career as an examiner with the Federal Reserve. Over the next 15 years, he moved up to head the Augusta banks owned by Citizens and Southern. Later on, both Bob and Bennett were involved with the Fed as members of the Federal Advisory Council, which was created in 1913 to advise the Board of Governors in Washington, D.C. Each year, the Atlanta Fed and the 11 other Federal Reserve banks choose one prominent commercial banker to represent the interests of the District at quarterly meetings with the Board of Governors.

Now, let's talk a bit about the 1950s and '60s in banking when these two gentlemen were earning their wings. Compared to the agitated atmosphere in present-day banking, the '50s and '60s were halcyon days. Banking was, to a large extent, a slow, calm, and prosperous business. These were the years before bank holding companies and large-scale branching. For banks in Georgia, that meant customers were to be found only in their home counties, but geographic restrictions were not the only limits on competition. Back then, banks could not even compete for deposits by offering higher interest rates because there were limits on the amount of interest they could pay their customers. But banks did compete for deposits by building branches next door to one another, by advertising, and even by giving away toasters to customers. Thanks to these rules and restrictions, most bankers could follow what came to be humorously known in banking circles as the 3-6-3 rule: that is, they paid 3 percent on deposits, made loans at 6 percent, and were on the golf course by 3 p.m.

Naturally, a few other things were quite different from how the banking industry operates today. For instance, when Bennett and Bob were young bankers, nobody had yet heard the phrase 'too big to fail.' In those protected days, banks simply did not fail in the United States, and the same held true within Georgia. The protection from competitors that banks enjoyed began to change nationally after the amendment of the Bank Holding Company Act in 1970. This change made it easier for banks to purchase other banks outside of their communities. In essence, the holding companies were a more complicated vehicle than branches for transcending geographic restrictions that were more prevalent at that time. These restrictions had persisted mainly because the smaller community banks were concerned that the big banks would swallow up many of their customers--and them. Another difference between the earlier Brown/Strickland era and today is that mergers and acquisitions were few and far between. In fact, in the '50s and '60s, about the only out-of-town bankers coming into Atlanta were here simply to make airline connections through Hartsfield.

Most of these banking rules and restrictions had been in place since the 1930s when Congress passed the Banking Acts of 1933 and 1935 to calm the waters after the Great Depression. These two acts instituted deposit insurance and industry segmentation along institutional, geographic, and product lines. Deposit insurance was intended to enhance the safety and soundness of the banking system by eliminating the danger of bank runs: depositors no longer needed to worry, since their funds were initially guaranteed up to $2,500 and nowadays up to $100,000. These laws also aimed at making the financial sector safe by prohibiting banks from underwriting corporate equity issues or purchasing equity securities for their own portfolios. In return, however, banks were given cartel-like powers over other products, such as demand deposits, along with geographic limitations, which I just mentioned, that also curtailed competition.

These two measures--deposit insurance and segmentation of banks from other financial intermediaries--seemed to succeed in making the nation's financial system safe and sound, but their effectiveness was largely a function of the economic stability and available technology of the next three decades. The economic situation began to change in the late 1960s, however, when interest rates began to rise, thanks to the inflation that accompanied the Vietnam War and the Great Society programs, both of which called for large amounts of federal spending--spending that was financed through deficits. This was a time when we first began to see some bank failures. The 1973 oil embargo gave inflation and interest rates another sharp hike early in the '70s. The protected banking structure that Congress had set up proved to be counterproductive to banks because it limited their ability to adapt and change to the new situation. At that time, rising interest rates created an incentive to bypass many regulations. Among the most successful at avoiding interest-rate, geographic, and product restrictions were nonbank competitors. For example, money market mutual funds used computer technology to offer consumers a short-maturity account at market interest rates. This innovation circumvented interest-rate ceilings on deposits as well as the geographic restrictions that governed most banks.

As more people began to realize that banks were having problems mainly because regulations made them too inflexible, some minor banking reforms were made. The decade of the 1970s, however, brought new pressures. As inflation increased in the United States early in the decade, bankers and many others invested in what usually proves to be a good investment in a time of inflation: real estate. However, when oil price hikes by OPEC stoked these smoldering price pressures into bright flames and shocked the economy, the country entered a sharp recession. In Atlanta, the chief effect of that sequence was felt in real estate property values, which crashed through the floor. This real estate debacle caused a crisis for many local banks, some of which closed. Bob and Bennett, though, brought strong and wise leadership that steered their banks through these troubled times.

Largely in response to problems that had erupted in the '70s, the 1980s were a time of deregulation and expansion in the industry. Some of the most fundamental pieces of deregulation came in 1980 and 1982. In an effort to make banks more competitive with nonbanks, these laws began a phased removal of interest-rate caps.

In the mid-'80s, banks began to expand across state lines following removal of several states' restrictions and a Supreme Court ruling that allowed reciprocal banking zones. In July of 1985, five southeastern states set up a regional compact. Trust Co. was the first bank out of the chute to take advantage of the new laws because it was in a good financial position to merge with or to acquire other banks in the region. The same day the Southeastern compact was created in 1985, Bob announced the merger of Trust Co. with the slightly larger SunBanks in Florida, thus creating the new regional holding company now called SunTrust. A few years later, SunTrust established a presence in Tennessee through a merger with Third National Bank of Tennessee. Throughout the '80s, Bennett also led the expansion of C&S in Georgia as well as handling acquisitions in a number of southern states stretching to Washington, D.C.

Aside from deregulation and expansion, the 1980s were also marked by heightened competition in banking and two closely related developments--declining profit margins and increased bank failures. Continental Illinois comes to mind as a failure notable mainly for its resurrection. It was resurrected, or more aptly, pulled from the brink of collapse by regulators who enunciated the too-big-to-fail doctrine for the first time, though it had been applied earlier. In saving Continental, they reimbursed not only the insured depositors but also uninsured depositors and creditors. Overall, though, we simply had too many banks chasing too few good loans. Profit margins have been squeezed through much of the decade. Many small and large banks just could not survive in the intensely competitive and fast-changing world of today's financial markets. Big banks incurred losses associated with third world debt, highly leveraged transactions, and real estate. Regional banks like those that Bennett and Bob head tended to do the best in these difficult times.

Although banking has not had--and is not likely to experience--the kind of crisis we are still working through in the thrift industry, the troubles of the banking industry have culminated so far in the credit crunch of the early 1990s. The proximate cause of this recent credit crunch was the excessive real estate construction that took place during the last decade. In the early '80s, tax laws had been altered to encourage investment, particularly in real estate. By mid-decade, serious imbalances were building. When the tax laws were amended in 1986 to remove this artificial stimulus, the real estate industry faced sharply lower after-tax rates of return. Consequently, many banks that had developed large real estate portfolios were left with weaker balance sheets. At the same time, regulators were seeking more strength. Banks responded to this "double whammy" by cutting back generally on lending. Thus, a credit crunch ensued, with grave difficulties for both businesses and bankers. I think the worst of that is behind us, but the credit crunch certainly was a factor in the long period of slow business activity we have been experiencing.

As this brief historical recap suggests, both of these chief executives have lived through a period of banking history that has taken their banks from the easy prosperity of the '50s and '60s to the fierce competition of the '80s and '90s. They have maneuvered through the shoals of deregulation, consolidation, and acquisitions. They have weathered credit crunches, mergers, and real estate investment trusts. And along the way, their bank buildings have helped to create a skyline for Atlanta. Bennett must certainly be proud of the newly completed NationsBank, nee C&S, Tower, with its open latticework roof topping the 55 stories of the building. But lest we forget to give credit where credit is due, it was actually Trust Co. that boasted the first skyscraper in Atlanta, built in the early 1890s. At that time, an eight-story building was tall enough to scrape the sky in this city. As we can all see, the standards by which both skyscrapers and banks are measured have changed over the years. To my mind, no bankers have been able to adapt so gracefully to the dramatic changes in their industry better than the two men we are gathered here this evening to honor, my colleagues and friends, Bennett Brown and Bob Strickland.