DYNAMIC ISSUES IN BANKING

REMARKS BY

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Dynamic Issues in Banking

Issues confronting you as bankers today can be downright frightening. Just run down this (partial) list:

Checking accounts for savings & loans

Share drafts for credit unions

Automatic transfer between savings and checking accounts

NOW accounts

ACH's

Point of sale terminals

Consumer lending by savings and loans

Underwriting by commercial banks

Travel business by holding companies

Truth in Lending

Equal Opportunity in Credit

Home Mortgage Disclosure Act

Community Reinvestment Development Act

Statewide branching

Nationwide branching for foreign banks

Universal reserve requirements

Interest on reserves

It makes you think twice about trying to stick it out long enough for the 50-year Club. And even if you step back from the day-to-day hassle it creates, you are hard put to make sense of it all. Why is so much happening all at once? Where is it all heading?

I'd like to take a stab at answering those questions, both from the point of view of a supervisor and that of a banker. My message is: don't be overwhelmed; there's good reason to be optimistic.

Grouping the Issues

The list does make some sense if you try to see what the items have in common. I can see five groups. There is one whole group concerning who does what to whom in payments. This is made up of three sub-groups: issues relating to thrifts getting into the payments business (share drafts and savings and loan checking accounts); the question of interest on payments accounts (NOW accounts and automatic transfers); and the technology of payments (ACH's, etc.). A second group concerns the non-payments business which various institutions might engage in (consumer lending by savings and loans, etc.). A third includes the whole area of consumer regulations (Truth in Lending, etc.). A fourth involves issues of the banking structure (statewide branching, etc.), and a fifth has to do with membership in the Fed (interest on reserves, etc.).

Pursuing the Consumer

I couldn't begin to talk about all of these in detail, but I do see a common thread. They are all attempts to give the consumer what he wants. Without judging any of these particular issues, I would say as a supervisor that this is good. Our economy runs on the principle that the "customer is always right;" the "consumer is king." Your business as bankers is to see that your customers are happy, and in the process of satisfying them you make a living for yourselves and pay dividends to your stockholders. Our business as supervisors is to help it all happen. Supervisors like to think they're looking out for the public welfare, but you're doing the same thing. So I start with the premise that the broad intent, the general thrust, of these current issues is good. It is thoroughly consistent with our kind of economy and it unites us both--bankers and supervisors--in a common purpose which we both have had all along.

Levelling Barriers

Now one of the things that happens all the time in our economy as customers demand new and different services and as businessmen try to meet their demands is that barriers come down--or are gotten around. If businessmen are hampered in one way or another from satisfying customers, they find another way of doing it. So when demand for banking services grew in certain areas of New Jersey you saw to it that the law was changed to permit you to set up branches in those areas. As savings and loans see opportunities to serve their customers better by creating checking accounts, they want in to that kind of business. As banks and thrifts in New England saw a chance to meet a perceived need, they invented NOW accounts and the law may be changed to permit them nationwide. Thrifts see opportunities in consumer lending, commercial banks in underwriting, holding companies in the travel business. EFTS technology offers possibilities that interest all kinds of institutions. All threaten barriers of some kind.

As a supervisor I think this is healthy. It shows that our economy really _is_ working, that you people who run our financial system are really pursuing that restless customer and don't hesitate to remove or go around barriers that get in your way. You are usually persuasive enough to get laws changed or ingenious enough to find legal and ethical ways to get around them. Regulation Q is the obvious example. It still stands; you still are not allowed to pay explicit interest on demand deposits, but you have invented many other ways of doing the same thing. So in the long run, either bankers or supervisors who try to prevent the process are like old King Canute.

Order and Fairness

I don't mean to say that anything goes. One reason some people resist is that the process can be not only painful, but dangerous. So there have to be at least two limitations: it should be orderly, and it should be fair. The first is where the supervisor comes in. We have to allow enough time for everyone to adjust to the change, and we have to provide adequate safeguards against loss to depositors. So to those of you who may feel threatened by all of these swords hanging over you I would say that one job of the supervisor is to keep them under control.

The process should be orderly and the outcome should be fair. If more kinds of business are to be opened up to more kinds of institutions, the same rules should apply to all. To some extent whether this happens is out of our hands as supervisors and will depend on how you make out with the lawmakers. This is something your association works hard at every day. I certainly can't offer any advice except to wish you godspeed. Fair laws are much easier to administer than unfair laws.

Social Responsibility

If life today were just a matter of pursuing the consumer, it would be hectic but understandable; the old rules would still apply. But there is one whole group of issues involving new rules. You must not only pursue the consumer but you must pursue him (or her) fairly. You are expected to pay attention to how your practices affect minorities and women. Result: a raft of laws and hundreds of pages of onerous consumer regulations.

I sympathize. These regulations are a great burden. On the other hand, they are a product of today's society which has a great concern for social equity and there is no reason why banking should be exempt from this concern. Consumer regulations are here to stay.

What we <u>can</u> do as supervisors is to make the job as easy for you as possible. We must administer the law, but we can help you to understand what the law and the regulations say you must and must not do. At the Fed we have experts who can speak plain English and stand ready to do so with your people. Let us know.

Membership

A final group of issues involves membership in the Fed. You have heard much about this before; it is an old story. What is new is that the entire Federal Reserve System--the twelve Banks and the Board of Governors--is now dedicated to an early solution of the problem. Bill Miller is on record; membership is at the top of his priority list. Planning is now going forward in case legislation is not forthcoming. The situation has dragged too long already.

Facing Change

In reviewing all these issues confronting you I have tried to give some reassurance that things are moving in the right direction. They are very much in tune with the kind of dynamic economy we pride ourselves on.

But this is the big picture, the broad, long-run view. What about the individual banker who has to chart his own course in this perplexing environment? I say, take heart. You have come a long way and there's no reason why you can't survive the future.

In fact, I wonder whether the change ahead of you will be any greater than the change behind you. Twenty-five years ago the typical bank in New Jersey had assets under $10 million. Today it has assets three to four times that amount. Or look at your asset mix. Twenty-five years ago fifty percent of your assets were in Governments, only twenty-five percent in loans. Now sixty percent is in loans. Or take your deposits. Only thirty-five percent were time and savings back then; now seventy-five percent. You have survived and prospered in the past quarter century, a time many believe to be the most dynamic in the history of mankind. You can survive and prosper in the next quarter of a century.

And there's no reason why all of you must come up with the same answers. Certainly, there are basic forces working on all of you, forces of the kind I have described. Each of you will have to respond. But this is a society and an economy of remarkable diversity and there is ample room for different solutions. You were not all alike twenty-five years ago, you're not now, and you won't be twenty-five years hence. There's a niche for each of you. The challenge is to make it.