THE FEDERAL DEPOSIT INSURANCE CORPORATION

DURING THE ADMINISTRATION OF

PRESIDENT LYNDON B. JOHNSON

November 1963 -- January 1969

PREFACE

The Federal deposit insurance system was established in 1933. It was designed to help restore public confidence in banks through the provision of insurance coverage for bank deposits and the protection of the money supply furnished by the banks covered by deposit insurance. It differed from earlier deposit insurance plans because it was nationwide. It therefore was able to mobilize the financial resources needed to assure a substantial measure of safety to bank deposits and to provide sufficiently comprehensive coverage to be workable.

The introduction of Federal deposit insurance in the early 1930's was motivated by several objectives. Most immediate, of course, was the determination to create a system that would prevent recurrence of the financial crises that characterized the early years of American finance and expanded into major proportions during the Great Depression. Not only was there concern for most of the depositors in banks, who held relatively small amounts, and the adverse reactions on the larger deposits but also concern for the affected communities whose money supply, consisting of bank deposits, had been extinguished. Loss of the medium of exchange and the involuntary freezing of previously liquid assets forced economic activity to a standstill.

Since its inception, the FDIC has passed through two rather clearly distinguishable stages in the orientation of its activities. In its early years, a paramount consideration was the need to husband resources; to stand prepared financially to pay off depositors where necessary and minimize bank failures. The second, and somewhat longer phase, has consisted of efforts to build up our deposit insurance fund to serve as the symbol of confidence for bank depositors. This objective could only be attained during periods of relative economic stability and through effective bank supervision that stressed the adoption of good banking practices.

We are now in a third and new phase or aspect of deposit insurance. Deposit insurance provided the institutional support that allows banks to fit into the modern environment. But, in the process of evolving this institutional support, various regulations and restrictions were imposed by the supervisory authorities in protecting the public interest. Also, institutional rigidities have developed in the economy, and as a consequence, regulation has been substituted for some decisions previously reached in the marketplace.

The increasingly complex financial interrelationships of the modern world make it imperative that banks have the vigor to respond in an enlightened way not just in the old terms of dollars-and-cents accounting but in the broader context of the economy as a whole. Failure to respond appropriately would eventually force banks to the sidelines as more vigorous and alert competitors adapted more rapidly to the new environment. Consequently, banks must remain ever sensitive to the environment in which they operate if they expect to retain and expand their role as financial intermediaries. If banks are lax in discharging this function, their major problem could be not disintermediation or, for banks the diversion of funds from banks into the market that occurred in 1966 but what might be called "nonintermediation" or complete circumvention of banks or other financial intermediaries by savers.

To an extent not true of most other economic activities, banking is endowed with a strong public interest element. Accordingly, banks must assume the responsibility and take the lead in anticipating and providing the means to satisfy the changing financial needs of the public. Service to the public is a primary concern of banks.

One means whereby banks can forestall nonintermediation is to know more about themselves, the financial system, and the economy as a whole. It may now be incumbent on banks more than ever before to cooperate with others, such as the supervisory authorities, in areas formerly considered solely within the province of a profit-oriented and profit-motivated management. During the Johnson Administration the Corporation has endeavored to develop the means to ease the transition by acting as a communicator of knowledge and tools to the institutions they supervise.

Deposit insurance has engendered confidence in the soundness of banking and the stability of its operations. The present-day banking environment therefore is conducive to the necessary free exchange of information between the individual banks and the public authorities. The Corporation and other bank supervisors are assisting in developing information and guides to improve the quality of bank supervision and business decisions in banks.

K. A. Randall
Chairman

FOREWORD

William M. Moroney, Assistant to the Board of Directors, and Francis C. Brooke, Jr., office of the Assistant to the Board of Directors, were designated by the Chairman of the Board of Directors of Federal Deposit Insurance Corporation to be responsible for direction, coordination, research and writing the administrative history of Federal Deposit Insurance Corporation during the Administration of President Lyndon B. Johnson.

Vol. I ADMINISTRATIVE HISTORY

(Documentation of footnotes for this Volume contained in Volume II.)

Part I

PART I - DIRECTORS

Management of the Federal Deposit Insurance Corporation is vested in a bipartisan Board of Directors of three members appointed by the President by and with the advice and consent of the Senate. The two directors appointed specifically to the Board are named for terms of six years; one of them serves as Chairman. The Comptroller of the Currency serves ex officio as the third director and as Chairman when there is a vacancy in that office. No more than two directors may be members of the same political party.

Mr. Joseph W. Barr was appointed to a six-year term as a member of the Board of Directors on January 22, 1964, and was elected Chairman the following day. Mr. James J. Saxon, the Comptroller of the Currency, was appointed effective November 16, 1961 and acted as Chairman from August 5, 1963 until Mr. Barr's election to the office. Following expiration of the term of office of Mr. Jesse P. Wolcott on January 26, 1964, Mr. Kenneth A. Randall was appointed for a six-year term as Director on March 10, 1964. After the nomination of Mr. Barr to become Undersecretary of the Treasury, Mr. Randall was elected Chairman on April 21, 1965. It is unique in this Corporation for a director of a political party other than that of the President to be elected Chairman with the approval of the President.

Mr. Barr continued as Director until his resignation effective April 29, 1965. Mr. William W. Sherrill was appointed as Director for a full term beginning March 4, 1966, filling the vacancy which had existed since April 29, 1965. Mr. Sherrill resigned on May 1, 1967 upon his appointment to the Board of Governors of the Federal Reserve System. Mr. James J. Saxon continued as Comptroller of the Currency until November 15, 1966. Mr. William B. Camp, First Deputy Comptroller and designated by the President as Mr. Saxon's successor, served on the Board as Acting Comptroller until his appointment as Comptroller effective February 1, 1967. Mr. Irvine H. Sprague was appointed as Director for a full term beginning September 27, 1968.

Consideration was given by Congress in 1966[1/] to the composition of the Board of Directors, but no action was taken thereon. Legislative proposals to consolidate in one person[2/] or in a board[3/] all of the bank supervisory functions now performed by the three Federal banking agencies were considered without action in 1965.[4/] Our comment thereon, in brief, was that given a banking system with as good a record as ours, it seems to be the better part of wisdom to proceed with utmost caution in combining supervisory functions in one agency.[5/]

Part II

PART II - COORDINATING COMMITTEE ON BANK REGULATION

During the period from 1961 to 1967 certain differences developed amongst the Federal banking agencies concerning the regulation and supervision of banks. The President, on March 2, 1964, directed the Secretary of the Treasury to establish procedures to insure that every effort be made by the Federal agencies charged with responsibility for the regulation of the banks to act in concert and compose their differences. As a result of this step, a Coordinating Committee on Financial Institutions, now consisting of the Comptroller of the Currency, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Federal Home Loan Bank Board and the Chairman of the Board of Directors of the Federal Deposit Insurance Corporation, was established by the Secretary of the Treasury and meets monthly or oftener to exchange views, to resolve potential differences and to achieve coordination of activities of the participating agencies.[1/]

Part III

PART III - INSURANCE OF DEPOSITS

Insurance was increased from \$10,000 to \$15,000 for each depositor under terms of legislation effective October 16, 1966.[1/] The Financial Institutions Supervisory Act of 1966, which increased coverage, also declared the Congressional intention that insurance coverage for each depositor should be limited. Accordingly, the Corporation issued new regulations, effective September 1, 1967, to define and clarify the insurance coverage afforded deposits in insured banks. The regulations (which are included in revised Part 330 of the Corporation's regulations) interpret the Federal Deposit Insurance Act to limit various devices which had been used to increase the insurance coverage beyond that intended to be provided by law. Similar regulations applicable to shareholders in institutions insured by the Federal Savings and Loan Insurance Corporation were adopted concurrently by the Federal Home Loan Bank Board. In general, the regulations of each agency provide for parallel treatment of insurance on various types of accounts.

Specifically, the regulations set forth certain general principles regarding record-keeping requirements and the determination of trust interests which provide a basis for determining the amount of insurance available to deposits held by depositors in the same or in different rights or capacities. As to each right or capacity, the regulations state the various ownership interests and the amount of insurance applicable thereto. Single ownership accounts, including those held by an individual or someone acting for him, testamentary accounts, accounts owned and held by executors or administrators, corporations, partnerships and unincorporated associations, public unit accounts, jointly owned accounts and trust accounts are defined and the amount of insurance coverage available to each such category of ownership is specified.

In 1966 the Board of Governors of the Federal Reserve System amended the Board's Regulations D and Q so as to include certain promissory notes and similar obligations of banks within the definition of the term "deposits" as it relates to Federal Reserve Board reserve requirements and its interest regulations. The Corporation's Board of Directors is authorized to find and prescribe by regulation obligations of a bank other than those stated in the statutory definition, to be deposits by general usage (Sec. 3(l)(5) Federal Deposit Insurance Act, 12 U.S.C. 1813 (l)(5)). The Board of Directors concluded that such notes and obligations of insured banks should not be included in the term "deposits", as defined in the Federal Deposit Insurance Act and applicable to assessments and insured deposits, and as used in the Corporation's interest rules and regulations. (See Legal Division files.)

In 1964 the Board of Directors of the Corporation prescribed that accrued interest to date of closing of a bank on savings and time deposits was a deposit liability and should be included as part of insured deposits in our payoff operations. Previously such interest was not considered to be a deposit and was uninsured.

An important insurance problem arose in connection with the brokering of funds into insured banks. The financial condition of a number of banks which failed in 1964 and 1965 was brought about primarily through self-serving loans of the management made with funds obtained for this purpose through money brokers rather than from the growth of deposits in the normal course of business. These funds were attracted by compensation in excess of the maximum permissible rate of interest which insured banks were allowed to pay on deposits under regulations of the Corporation and the Board of Governors of the Federal Reserve System.

Under the Federal Deposit Insurance Act, in any case where the Corporation is not satisfied as to the validity of a claim for an insured deposit, it may require the final determination of a court of competent jurisdiction before paying the claim. Court decisions in relation to State deposit guaranty plans, years before the formation of Federal Deposit Insurance Corporation, had held that money placed in banks under an arrangement for payment of a bonus or premium in excess of the statutory or regulatory interest rate limit was not a "deposit" insured or guaranteed by such guaranty plans.

The Board of Directors of the Corporation in 1964 authorized declaratory judgment actions in Texas and California for a determination by the courts of whether such brokered certificates qualify as insured deposits. At the time of the Corporation's original suit the question involved the insured status of certificates of deposit of about $1 million. Ultimately, this litigation involved about 388 certificates of deposit aggregating about $18.3 million with one certificate of $3 million. On April 1, 1966 the Board of Directors of the Corporation decided not to contest the payment of deposit insurance on the ground that payments in excess of the lawful interest rates permitted on deposits by Federal regulations are made to depositors and provided for the payment of insured deposits of about $3,721,000 involved in this litigation over brokered funds.

This action was taken because after the institution of our law suits it became apparent that denial of insurance coverage to these transactions would not restrict the circumvention of the interest regulations in connection with the transactions over the insurance limit of $10,000. On the other hand, it might well have a serious detrimental effect on the attitude toward insured deposits in the minds of depositors. Weighing the desirability of preserving the confidence of the public that their deposits of funds in banks are insured against the fact that a favorable decision in our law suits would not curtail the objectionable practice of brokered funds, the Corporation concluded that the public interest would best be served by preserving the deposit status of these transactions and by supplementing the means for enforcing the interest regulations of the Corporation and the Board of Governors of the Federal Reserve System. The Corporation concluded that the validity of the deposit relationship for insurance should not be affected by violations of the Federal interest regulations.

For that reason the Corporation proposed legislation (S. 2354 and S. 2575, 89th Cong.) providing an effective penalty to enforce Federal regulations on the payment of interest by insured banks, and to stop the practices of brokering funds into insured banks for sums in excess of the maximum rate of interest permitted on deposits by Federal regulation. No action was taken on this proposed legislation, but the Financial Institutions Supervisory Act of 1966 (Public Law 89-695) enlarged the authority for enforcement of such interest regulations with proceedings against an insured bank to cease and desist from any violations thereof.

Part IV

PART IV - LEGISLATION

During President Johnson's Administration important laws were enacted by the Congress and approved by the President which substantially strengthened the banking industry and the protection afforded depositors and others.

Legislation was enacted in 1964 requiring public disclosure of certain financial information by banks with stockholders in excess of 750, later reduced to 500. Approved by the President on August 20, 1964, Public Law 88-467 provides that the powers, functions, and duties vested in the Securities and Exchange Commission to administer certain registration, reporting and disclosure provisions of the Securities and Exchange Act of 1934 be vested in the Federal Deposit Insurance Corporation with respect to securities issued by insured State banks which are not members of the Federal Reserve System. The same authority was vested in the Comptroller of the Currency with respect to securities issued by national banks, and in the Board of Governors of the Federal Reserve System with respect to securities issued by State member banks.1/ Later amendments required public disclosure of certain information with respect to acquisitions or tender offers for more than 10 percent of the equity securities of such banks.2/

Public Law 88-593, which was signed by the President on September 12, 1964, amended the Federal Deposit Insurance Act to require the president or other chief executive officer of an insured bank, either State or national, to report to the appropriate Federal banking authority any change in ownership in the bank's outstanding voting stock resulting in a change in the control of the bank. This act also requires such banks to report loans which are secured by 25 percent or more of the stock of any insured bank. When there has been a change in control the bank is also required to report promptly to the appropriate Federal banking agency any changes or replacements in the chief executive officer or directors occurring in the next 2-month period, including in its report a statement of the past and current business and professional affiliations of the new chief executive officer or directors. This legislation enables the Federal bank supervisory authorities to promptly investigate new management.[3/]

The Financial Institutions Supervisory Act of 1966 (Public Law 89-695, approved on October 16, 1966,[4/] was designed primarily to provide the means for more effective supervision of insured banks and savings and loan associations and included the increase of insurance coverage to $15,000, discussed in the previous part. The Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Home Loan Bank Board, and the Federal Savings and Loan Insurance Corporation were authorized to issue temporary and permanent cease-and-desist orders to insured institutions with respect to violations of law, rule, regulation, charter, or written condition or agreement, or with respect to unsafe or unsound practices. In addition, another new remedy was provided by empowering the supervisory authorities to take action to suspend or remove officers or directors of insured institutions for violation of law, ruling, regulation or a final cease-and-desist order, or for engaging or participating in any unsafe or unsound practice, when personal dishonesty is involved. Provision also was made for suspension or removal of persons convicted of any criminal offense involving dishonesty or a breach of trust or charged with a felony of that nature. In addition to these new grants of authority, the Act amended various provisions of existing law, including those relating to the termination of deposit and share account insurance and examination of bank affiliates. All of the abovementioned provisions of the Act will expire on June 30, 1972, unless further action is taken to continue them in effect.

In 1966 the Freedom of Information Act (P.L. 89-487) was enacted to be effective on July 4, 1967, and provided access to all Federal records other than those exempted by the provisions of the Act. This Act has enabled the public to be better informed of the operations of the Corporation without interfering with the traditional confidentiality necessary for the effective supervision of banks.

The Consumer Credit Protection Act (P.L. 90-321), approved May 29, 1968, gives the Federal Deposit Insurance Corporation enforcement authority over the "Truth in Lending" requirements with respect to insured banks which are not members of the Federal Reserve System.

Section 18(c) of the Federal Deposit Insurance Act, which was revised by the Bank Merger Act of 1960, was further amended by the Bank Merger Act of 1966 (P.L. 89-356), approved February 21, 1966.[5/] The main purpose was to resolve conflicts which had arisen concerning the 1960 Act and the application of the antitrust laws to bank mergers. To this end the 1966 Act requires the bank supervisory authorities, the Department of Justice, and the courts to apply the same set of standards in evaluating bank mergers or consolidation, including agreements between banks to acquire assets or assume deposit liabilities. Such a transaction must be disapproved if it creates a monopoly or furthers a conspiracy to monopolize. It cannot be approved if it substantially lessens competition, restrains trade, or tends to create a monopoly unless the anticompetitive effects are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. In usual circumstances, the consummation of such a transaction may not take place before the thirtieth day after approval by the appropriate supervisory authority in order to permit the filing of a suit if it is desired to contest the transaction. If suit is not filed within this period, the merger may not thereafter be attacked in court except under the monopoly provisions of section 2 of the Sherman Antitrust Act.

The amendments of the Bank Holding Company Act of 1956 by an Act approved July 1, 1966 (Public Law 89-485) made section 23A of the Federal Reserve Act, relating to loans and other dealings between member banks and their affiliates, applicable to insured banks which are not members of the Federal Reserve System, as well as member banks.[6/]

The President signed Public Law 89-79 on July 21, 1965, extending for three additional years the provisions of section 19 of the Federal Reserve Act and section 18(g) of the Federal Deposit Insurance Act, permitting domestic banks to pay interest at a higher rate on time deposits of foreign governments, monetary and financial authorities thereof or international financial institutions of which the United States is a member, than the rate applicable to domestic depositors.

The increase in maximum interest rates permitted to be paid by insured banks in late 1965 and tight money pressures resulted in competitive problems for single-purpose thrift institutions which necessitated legislative and regulatory action.

On December 7, 1965, Part 329 of the Corporation's regulations was amended to conform with an amendment adopted by the Board of Governors of the Federal Reserve System providing for payment of a maximum permissible rate of interest of 5-1/2 percent per annum on certain deposits of national and other member banks. Section 329.6 was amended to permit insured State nonmember banks to pay a maximum permissible rate of 5-1/2 percent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed on any time deposit, and to pay a maximum permissible rate of 4 percent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed, on any savings deposit.

An Act containing temporary interest rate control provisions (Public Law 89-597) was approved by the President on September 21, 1966 and, unless extended, was to expire at the end of one year. This provision was extended for an additional year in September of 1967, and for another year on September 21, 1968. (Public Law 90-505). The Act directed the Secretary of the Treasury, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board to take action to reduce interest rates to the maximum extent feasible. The provisions of the Federal Reserve Act which directed the

Board of Governors to prescribe maximum rates of interest payable on time and savings deposits in member banks were amended to provide that the Board, after consulting with the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board, may limit by regulation the rates of interest which may be paid on such deposits. Thus, consultation was required and the regulation of interest rates payable by member banks was put on a discretionary basis instead of the mandatory basis previously prescribed. The Act also was amended to provide additional bases for differentiating between deposits, and as amended empowered the Board of Governors to prescribe different rate limitations on the basis of different classes of deposits, deposits of different amounts or with different maturities or subject to different conditions regarding withdrawal or repayment, according to the nature or location of member banks or their depositors, or according to such other reasonable bases as the Board may deem desirable in the public interest.

The provisions of the Federal Deposit Insurance Act authorizing the regulation of rates of interest payable by insured nonmember banks were amended in like manner. Interest rate limitations were placed on a discretionary basis, consultation was required before changes in rates, different rate limitations were authorized for different types and classes of deposits, and insured nonmember mutual savings banks were explicitly mentioned. In addition, the Act gave similar authority to the Federal Home Loan Bank Board with respect to the regulation of rates payable by institutions which are insured institutions as defined in section 401(a) of the National Housing Act and those member institutions subject to regulation by the Board. This subjected savings and loan associations to such dividend rate limitations for the first time. Other provisions of the Act amended the Federal Reserve Act to increase the maximum reserve requirements for time and savings deposits and to authorize Federal Reserve open-market operations in obligations of agencies of the United States.

In 1966, in three separate actions the Corporation amended Part 329 of its rules and regulations relating to the payment of deposits and interest thereon by insured nonmember banks.

Effective July 20, 1966, the Board of Directors under existing legislative authority defined "multiple maturity time deposits" and provided for a maximum rate of 5 percent on such deposits payable in 90 days or more, and 4 percent on such deposits payable in less than 90 days. In taking this action the Corporation sought to limit excessive interest rate competition among financial institutions and to support the Federal Reserve in its primary monetary policy responsibilities.

To implement the interest rate legislation approved by the President on September 21, 1966 (P.L. 89-597), Part 329 was amended effective September 26, 1966, to reduce from 5-1/2 percent per annum to 5 percent per annum the maximum rate of interest which may be paid by insured nonmember banks on single maturity time deposits of less than $100,000 received on or after September 26, 1966. At the same time, banks were authorized to compound interest up to the applicable maximum rate on any basis that the bank desired to adopt. This action under the Corporation's new authority to differentiate deposits by size as well as other reasonable criteria was intended to check futher escalation in interest rates on time money.

In commenting on the legislative proposal permitting higher interest rates on deposits in excess of a specified dollar amount, Chairman Randall of the Corporation recommended it and stated: "However, to be realistic and workable the cutoff point should be quite high -- in my judgment at least $100,000. It is a fact that permitting higher rates on big deposits will give large banks a competitive advantage over small banks whatever the cut-off point may be; but the higher the cutoff the less will be the impact on small banks."[7]

As part of the same amendment, provisions were added to Part 329 to regulate, for the first time, the payment of interest and dividends by insured nonmember mutual savings banks, and a maximum rate of 5 percent was prescribed for any time on or after October 1, 1966. This coincided with the issuance of regulations by the Federal Home Loan Bank Board, under the new interest legislation, to prescribe maximum rates for insured savings and loan associations and similar organizations.

On December 8, 1966 the Board of Directors adopted amendments to Parts 327 and 329, effective January 1, 1967, designed to sharpen the technical distinctions between time deposits and savings deposits. Specifically, the amendments to the rules and regulations amend the definitions of the terms "time deposit, open account" and "savings deposit" to make it clear that deposits payable on a specified date or at the expiration of a specified period of time after the date of deposit (sometimes referred to as "fixed maturity" deposits) do not constitute savings deposits. The amendments to Part 327 of the rules and regulations relating to assessments are conforming amendments only and are not intended to affect the manner of computing assessments payable by insured banks to the Corporation.

Effective April 19, 1968, the Federal Deposit Insurance Corporation amended its rules and regulations to change the maximum rate of interest which can be paid by insured nonmember banks on single maturity time deposits of $100,000 or more. The amended regulation provides for continuation of the 5-1/2 percent maximum permissible interest rate for single maturity time deposits maturing 30 to 59 days after date of deposit. For those maturing from 60 to 89 days, the maximum interest rate was increased to 5-3/4 percent; from 90 to 179 days, to 6 percent. For single maturity time deposits maturing 6 months or more after date of deposit, the maximum interest rate is now 6-1/4 percent.

On July 7, 1968 President Johnson approved the "Bank Protection Act of 1968" (P.L. 90-389; 82 Stat. 294) -- which requires the Corporation and other Federal supervisory agencies of banks and savings and loan associations to (1) establish minimum standards with which each insured bank must comply with respect to the installation, maintenance, and operation of security devices and procedures to discourage robberies, burglaries, and larcenies and to assist in the identification and apprehension of persons who commit such acts; (2) establish time limits within which each insured bank shall comply with such standards; and (3) require the submission of periodic reports with respect to the installation, maintenance, and operation of surety devices and procedures.

Part V

PART V - BANK EXAMINATION

A number of significant steps were taken by the Division of Examination during the Johnson Administration to improve the effectiveness of its operation. Of primary importance was a more intensive recruiting program, with the guidance of the Personnel Branch. As a result, the number of Division employees increased more than 40 percent and quality standards of examination were kept at a high level. During this period women bank examiners were employed for the first time and now number 46. In addition, greater stress has been placed on employment from minority groups with an increase throughout the Corporation from 39 to 118. The expansion of the work force was necessary to maintain the Corporation's goal of examining insured banks under its jurisdiction at least once a year and carrying out the Division's other responsibilities in the face of a substantial expansion of loans and other bank assets. Perhaps the most significant indicator of the increase in the examiner's work load is the growth in the volume of loans, which absorb a large proportion of examiner manhours. Loan volume in the banks examined by the FDIC was up approximately 50 percent over the past five years.

In discussion of plans for this expansion of the examining force with President Johnson, Chairman Randall and Director Sherrill were told by the President to get the men needed to do the job and not let happen to him what happened to President Hoover.

Several organizational changes were made in the Division's Washington Office to facilitate the discharge of its responsibilities resulting from new legislation passed during the Johnson Administration. A disclosure unit was created to handle financial information reported to the Corporation by insured State nonmember banks with 750 or more stockholders (later reduced to 500), pursuant to section 12(i) of the Securities Exchange Act of 1934, as amended in 1964. Also, another unit was established, to correlate information concerning changes in control of insured banks required to be reported to the Federal bank supervisory authorities as a result of legislation enacted in 1964.

Significant structural, procedural, and staffing changes also were effected in the District Offices of the Division. In 1967 the number of Districts was increased from 12 to 14 and the geographical alignment of the Districts was extensively altered. By reducing the number of banks under the jurisdiction of each District Office and making the Districts more compact, this has made possible closer liaison between bankers and administrative personnel in the District Offices and has contributed generally to more effective and efficient bank supervision.

In 1966 a movement toward delegation of authority from the Washington Office to the District Offices was initiated. Such delegation included responsibility for approving certain applications of banks for changes of location and extensions of time to act upon matters previously approved by the Board of Directors. This has not only made possible more rapid handling of such applications but reduced the work load in the Washington Office.

Late in 1967 work began on a new Report of Examination and Manual of Examination Policies and Procedures. Although portions of the Report and the Manual have been revised from time to time in the past, this marks the first time in the Corporation's history these documents have been completely reworked. One of the major goals of the new Report and Manual will be to express the change, which has taken place under Chairman Randall during the Johnson Administration, in the Corporation's philosophy to a more effective approach toward bank supervision. Bank examination will be not only a vehicle for the correction of weak banks or weak banking practices but also an instrument to assist banks in adjusting to changes in the economic environment. The revised examination report is banker oriented as well as bank examiner oriented. Recognizing that the "information revolution" now has made available to bankers a great variety of reports, the new examination report will emphasize the examiner's judgmental findings which can be found only in such an objective appraisal of the bank's affairs. Other schedules will be made available only to banks which need them and to supervisory authorities. Extraneous or "work paper" type material will be eliminated to free the examiner from clerical work and speed processing of reports so they can be returned promptly to the banker and thus maximize their usefulness.

Goals of the new Report and Manual are to include in the report the type of information which can be most advantageously utilized by the Corporation's computer facility. Additionally, the accounting concepts in the new Report will be brought into conformity with other financial reports required by the supervisory authorities such as the Call and Income and Dividend reports and reports required by the various disclosure regulations.

Part VI

PART VI - RESEARCH

During the Johnson Administration the Corporation expanded its research program and activities, conducting important banking studies and providing more timely data to the banking community. This expansion required and was facilitated by the development of a large-scale automatic data processing capability.

Major new activities included the release of bank operating statistics, with comparison data for economic area; development of a generalized statistical tabulating computer program for rapid development of reports from automated data files, the FDIC Bank Simulation program for instruction of FDIC and banking personnel; the development of statistical formulas for determining potential loss rates on loans; and several studies on the feasibility of automation in small banks.

While the emphasis during the period was on new activities, which will be covered in greater detail in the ensuing paragraphs, the timeliness of certain traditional reports from the Division was significantly improved. As an example, semiannual Call Report data, which had formerly taken as much as five months to release, is now being disseminated to banks in approximately two months.

A major step forward in the Research program was the release in early March, 1968, of detailed operating statistics for December 31, 1967 of all insured commercial banks in the Country, followed in late summer by the release also of similar tables for mutual savings banks from the June 29, 1968 Report of Condition. An article in the March 25, 1968 issue of "United States Investor" describes the type of data released and its significance to the banking community.[1/]

A second important development was a generalized statistical tabulating program, titled "FDIC General Retrieval System" released in 1968.[2/] The Federal Deposit Insurance Corporation's General Retrieval System (FDIC-GRS) is an IBM System/360-based information system which has significantly reduced the manhours and machine time required to retrieve data and produce reports. It is one of two operational computer systems developed within the conceptual framework of an eventual Management Information System for the FDIC. The other is a series of generalized programs designed for use in the analysis of banking data. Still in the planning and evaluation stages are other general-purpose systems concerned with the creation, validation and maintenance of data files.

In the summer of 1968, the culmination of two years' effort, the FDIC Bank Management Simulation,[3/] was demonstrated to students of the Stonier Graduate School, Rutgers University, who participated in the program. The major benefits expected from the project are:

1. A more comprehensive and realistic understanding than has heretofore been available of the internal structure of banks and their interactions in the marketplace;
2. A training vehicle for bank managers and examiners which presents banking problems and gives experience

in making decisions in all areas of importance in banking;

3. A device for doing original research on the information transmittal problems inherent in systems characterized by wide geographic dispersion of remote computer terminals; and

4. In ultimate form, a computer-based experimental laboratory for testing the impact on financial institutions and the economy of alternative policy and legislative proposals.

This was a part of Chairman Randall's desire to communicate data, knowledge, and tools to the banking community.[4/] Results of this work were disseminated in 1968.

As the Division's role expanded, the time horizon for planning future research lengthened. Plans are currently being developed for data transmission and other research to aid the Corporation and the banking community during the decade beginning in 1970.

Part VII

PART VII - LIQUIDATION

Since 1964, emphasis has been placed on the speeding up of the payoff of insured deposits in closed insured banks with the time of payment being reduced from about 10 days to about 5 days or less.

In receivership operations, the Corporation has eliminated the necessity of a claimant submitting his "Receiver's Certificate" for endorsement when a liquidating dividend is paid.

On October 12, 1966, the Corporation was appointed receiver of Public Bank, Detroit, Michigan, a State bank with deposits of approximately $100 million. Immediately after the Corporation's appointment as receiver an assumption agreement was entered into with Bank of the Commonwealth, Detroit, Michigan. Under this agreement, Bank of the Commonwealth assumed all of the deposit liabilities of Public Bank without any loss to a depositor. Bank of the Commonwealth undertook to liquidate all of the assets of Public Bank under arrangements whereby FDIC guaranteed that bank against loss to a maximum amount of $10 million. This amount was placed in the Bank of the Commonwealth with the agreement that any unused portion was to be returned to the Corporation in installments, including accrued interest on the unused funds.

Through this device, Detroit was spared the economic disruption which would have occurred through the closing of a bank as large as Public Bank. The value of the bank as an operating concern was obtained through the payment by Bank of the Commonwealth of a premium for deposits assumed.

This guarantee arrangement was a step in planning to avert losses to depositors in the community and with no additional cost to the Corporation. It is considered that our loss has been reduced by having about 40,000 loans handled by a large operating bank and the receipt of a premium derived from the salvage of the operating business of Public Bank. (See Corporation's Annual Reports for details of liquidation activities.)

Part VIII

PART VIII - OTHER ACTIVITIES

The Corporation has established a Congressional liaison office which responds promptly and effectively to inquiries and requests from Members of Congress. The Corporation has continued to maintain excellent relations with the legislative committees of the Congress.

The Corporation has recently established an Education and Publications Office to combine more effectively its educational and training programs for bank examiners and other employees.

The Corporation has established regular conferences with groups of State banking commissioners and their staffs with officials and the staff of the Corporation. It has annual meetings with 30 to 35 State bankers' associations for exchange of ideas on banking developments and discussion of matters of mutual concern and interest in the field of banking. An annual Research and Data Processing Conference has been held with the academic community since 1964.

In brief, during the Administration of President Johnson legislation of importance to the soundness of our banking system and the protection afforded depositors and others was enacted with his support and approval. Improved coordination of the Federal agencies supervising banks and savings and loan associations has been achieved. Expansion of examination and research staffs has better enabled the Corporation to perform its function. The Directors of the Corporation appointed by President Johnson have enlarged the mission of the Corporation from one of examination, insurance and liquidation to include expanded research activities to enable the Corporation to furnish greater assistance to banks and increase the effectiveness of its supervision.