ARE BANKS BEHIND THE TIMES? THE CASE FOR BROAD CHANGES

Interview With James J. Saxon, Comptroller of the Currency

A little-known federal banking agency suddenly has burst into the news, stirring controversy.

James J. Saxon, Comptroller of the Currency, has shaken up many banking regulations, now finds himself at odds with the Federal Reserve Board and some of this country's leading bankers.

The Comptroller has approved scores of new national banks and branches, spurred key mergers, revised outmoded rules. Result: Keener competition for deposits and for loan customers.

Mr. Saxon—in this interview with members of the staff of "U. S. News & World Report," held in the magazine's conference room—tells what's behind all the activity, what lies ahead.

Q Mr. Saxon, are banks in this country meeting all the needs of savers and borrowers?

A Some banks are. Others are not. We find examples constantly where banks are failing to do the job they ought to be doing.

Q What do you mean by that?

A Many banks aren't really trying to serve their customers —individuals and businesses.

You still run into a great many banks, surprisingly, that don't accept savings accounts—or, if they do, they pay a very low rate of interest on savings.

Some banks don't make consumer installment loans—or, if they do, it's to a very limited extent.

In farm areas, a great many banks aren't making the farm loans they ought to be making. I see them, time and again, sending loans to the Production Credit Administration, or the Farm Home Administration—loans the banks ought to be making themselves.

Q What's the reason for all this?

A I think it's twofold. Primarily, it's the result of excessive Government regulation. Second, it's the reliance on Government protection and shelter that has been bred into banking because of that regulation.

Q Aren't banks limited in what they can do—the sort of loans they can make, the way they can expand?

A Yes, they have been limited, far too limited.

Q Are bankers too cautious, as well?

A Yes, many of them. Banks ought to be out working with all sorts of businesses, with industry, with farmers, finding ways to be helpful. Many haven't been doing it.

Q Does that go back to the depression days of the 1930s, when many banks failed?

A Yes, and, unfortunately, many banking practices—and Government regulations, too—have changed very little since that time. Our whole economy has changed drastically. Ways of doing business have changed, but the regulations governing banking haven't been changed.

Q Is that all the fault of the banking laws?

A Partly it is. But the attitude of the regulator is important in any regulatory agency of Government. Is he forward-looking, expansion-minded? Does he have confidence in the people who are running the industry he supervises? Or is he so control-minded that he wants to substitute his own judgment for that of the people in the industry? In the case of banking, it comes down to who is going to allocate the credit of the country.

Q Is that your job—to allocate money?

A No. That's precisely the point. In my office, we're trying to relax the rules that govern banking, give bankers greater opportunity to exercise their own judgment on how much they should lend, how much interest they should pay, and so forth. If one has confidence in the quality of bank management generally—as I do today—then I believe we can afford to make banking rules more flexible.

Q You and your office have been a matter of controversy. Just what are the Comptroller's responsibilities?

A It's our job to supervise the country's 4,589 national banks—authorize charters for new banks, approve the establishment of branches by existing banks. We also examine the condition, the financial soundness, of all national banks.

Q What about all the other banks in the country?

A Those are State banks. They get their charters from the individual States, and they're subject to regulation by State supervisory agencies, not by the Comptroller's office.

Q Is that what's meant by the "dual banking system"?

A Yes.

Q Where does the Federal Reserve System come in?

A All national banks are required to be members of the Federal Reserve. State banks can join if they want to. If they do become members, they have to abide by the Reserve Board's regulations.

Q What are some of the changes you've made?

A Well, we've recognized the need for additional flexibility in mortgage loans. Sometimes large borrowers want to borrow money for commercial use—inventory purposes, or expansion—and they put up a piece of real estate as security for the loan. In the past, that loan has had to be treated as a real estate loan, subject to the restrictions on real estate loans, even though the money was to be used for another purpose. The loan often became useless to the borrower because of the strings attached to it. We have removed those limitations.

We've done a complete revamping of the trust regulations for banks—the first change in that field in 30 years.

This change gives the banks more authority to use their own judgment in making investments, in handling trusts.

We've asked Congress to broaden the lending power of national banks, and to let them underwrite State and municipal revenue-bond issues. And we've put out a whole new manual of regulations on lending practices, and on corporate procedures.

Q But you've run into a lot of opposition—

A The main opposition has come from within the banking industry itself, and from other institutions that compete with banks.

Q What's the reaction among businessmen?

A It's astonishing, the breadth and depth of interest in what we are doing. For example, I spoke at a recent meeting of executives of large companies. The president of one of the big auto companies came up to me and said: "We're extremely interested in what you are doing—for very good reasons. We're well financed; we don't need to borrow funds from banks. But we have thousands of dealers who sell our cars, and they're in communities all over the country. We expect the banks in those places to be solvent and liquid, but we think they ought to be helpful, too."

At the same meeting, a man from a big retailing chain said: "In the southwestern part of the country, we just don't get the banking services we need. Too many banks are just places to put money on deposit."

Q What about bankers themselves? Are they opposing your efforts to loosen up regulations?

A Not the younger bankers. You take the men in banking who are, say, 25 to 55 years old, and the support for this office is very broad and strong. But the men in their 60s and 70s—many of them—they're shaking their heads and wondering.

Q Maybe they remember the great depression—

A That's exactly it. Now, we're not saying: "Let's dismantle the whole overlay of Government regulation of the banks." I just say that, in the past, this office has been excessive in its regulation of banking. So has the Federal Reserve Board.

Q But these restrictions were put on at the time of the depression. Was there good reason for them then?

A Yes, but that was long ago, and much has changed. Bankers and the regulatory agencies are more knowledgeable today and more sophisticated, and we now have a better understanding of the uses of monetary and fiscal policies.

Q If you loosen the reins on banks' lending policies now, might the result be too great a spurt of credit?

A No, I don't think so. The great body of bankers in the country today is a conservative group. They wouldn't go to an extreme.

Q You don't feel that too many risky loans are being made in this country today—

A No, definitely not. And I'm looking at bank-examination reports every day, from all over the country.

WHERE BANKERS DIFFER—

Q The majority of Federal Reserve Board members, including Chairman William McChesney Martin, do not seem to agree with you—

A I think there's a basic difference in the philosophy of government here. The Federal Reserve is more control-minded than we are. I think their controls are far too tight.

Q How would you describe your relations with the Federal Reserve Board?

A With some exceptions, I think they are all right.

Q When you went to Congress recently with proposals for relaxing some of the controls on banking, Chairman Martin opposed each one—

A I said we were getting along all right—with some exceptions. Take the matter of the controls the Reserve Board exercises on how much interest banks can pay on time and savings accounts. I believe that is a form of price control, and ought to be eliminated. If we really mean what we say about free, competitive markets, then banks ought to be left to compete for the available pool of savings without the Government's intervening. As matters stand, the Reserve Board says: "That's all the interest you can pay." That's price-fixing, and I think it's wrong.

Q Where else do you disagree?

A Well, we differ on the question of the quality of credit—whether banks are making sound loans. Some on the Board think there should be selective controls—telling the banks what limits they should put on loans for such things as new motels, or apartments, or mobile homes. My contention is that the Reserve Board shouldn't go beyond determining the adequacy of the total supply of money and credit. It shouldn't determine how money is to be used.

JAMES J. SAXON, as Comptroller of the Currency, supervises this country's 4,500 national banks. His office issues charters, authorizes new branches, examines banks for financial soundness. A native of Toledo, Ohio, Mr. Saxon joined the Treasury Department in 1937 after receiving a law degree. He has held many Treasury posts in the U. S. and overseas. After World War II, he handled the take-over of Japanese banks, later was a U. S. adviser to the World Bank and the International Monetary Fund. He was appointed Comptroller in 1961.

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Q They do that in Europe—

A But should we in this country? I don't think so. If we should do it here, where would we draw the line? This seems to me to be alien to our whole free-market philosophy.

Q Were you surprised when the Federal Reserve Board came out vigorously in opposition to the bills you proposed to Congress for relaxing some of the rules on banking?

A No, I wasn't. I'll tell you why. The Federal Reserve Board is the principal regulatory spokesman and champion of the State banks. These include some of the country's big State banks, like the Chase Manhattan [of New York], which are plainly apprehensive of the growth in competitive capacity of the national banking system.

Q Do you think the Federal Reserve System as it now exists ought to be updated, or overhauled?

A Yes, that's exactly what I think. Membership in the System ought to be voluntary for national banks, as it is

. . . "We base decisions on facts, not on horse trading"

for State banks. We have some pretty substantial State banks today that are not members. A lot of others are dissatisfied with the excessive controls the Federal Reserve imposes—on reserves, interest rates, foreign branches, and Edge Act corporations, for example. [Edge Act corporations are U. S. corporations set up under the Federal Reserve to engage in foreign banking and finance.]

Q Is your office at odds with the Justice Department over bank mergers?

A No. We have excellent relationships with the Justice Department. For the first time in the history of this office, we're talking over our common problems. We now know in advance whether or not there's to be antitrust litigation, and we can tell the banks in advance. No more of this surprise stuff.

Q But aren't there some big antitrust suits pending against banks—suits that challenge your rulings?

A Only two suits challenging my rulings have been brought by the Justice Department in the two years I've been in office, during which time we've approved 190 mergers, involving mostly small banks. Action in one of these was dropped after the two banks involved, in Hammond, Ind., requested the merger be rescinded. The other case involves two large West Coast banks, Crocker-Anglo of San Francisco and Citizens National of Los Angeles. The merger became effective November 1 after a special three-judge court in California unanimously denied the Justice Department's request for injunction, holding that the merger did not violate the Clayton Act.

Q Does your office have a favorable attitude toward bank mergers?

A I wouldn't want to say it's either favorable or unfavorable. Banks have the right to apply for authority to merge, and the Bank Merger Act sets the standards we follow in deciding those applications.

Q How do you decide whether banks should be permitted to merge?

A We determine, as the law requires, whether the public interest would be served. In reaching our decisions, we have to take into consideration the public need for the services of the merged institution, the improved capacity of the merged institution, and the effects on competition.

DECIDING ON NEW BANKS—

Q Some supervisors of State banks seem to feel we're getting too many banks in certain areas. They blame you for chartering new national banks—

A Well, you can get differences of opinion. We're talking about value judgments based on economic data, and on thorough investigation and analysis. When we get a charter application, we examine the affected area to see whether adequate facilities are available, and whether existing facilities are competitive. We look at how many new State banks are being chartered, what future needs are likely to be, and the prospects that the new bank will be able to operate profitably.

Take the State of Florida, for example: About three months ago we stated that we would limit new bank charters there. We've done much the same thing in California.

Q Does that apply to branches, as well as new banks?

A Yes, we apply the same tests to branch applications. But, because of the management factor—the limited supply of management talent—it's usually easier to branch an existing bank than to form a new one.

Q Some of your critics say you've been too lenient in permitting national banks to establish new branches in States which deny new branches to State banks. How do you answer that?

A No, we can't and don't do that. Some State banking authorities are complaining that we don't "co-ordinate" with them in our decisions to authorize new branches for national banks. Now, what they mean, really, is: "Let's sit down and we'll carve up the market—you take this for a national bank, we'll take that for a State bank."

We're willing to exchange information, and, in many cases, we'll agree that a State bank is the logical one to have a branch in a certain location, rather than a national bank. But we're basing our decisions on the facts in each case, not on horse trading.

NEED FOR COMPETITION—

Q Is there a good deal of monopoly in banking today?

A No, not in the technical sense. We do find severely restrictive tendencies in areas where banks are prevented from effective competition by State or federal laws or policies. So the existing banks often can control banking in the area and relax comfortably. They aren't on their toes. They aren't driven to what's so basic in our society: a constant, competitive thrust.

Q Is that sort of competition good for banking?

A Yes, it's essential, in my opinion.

Q But can't you have too much competition—

A Yes, maybe in a particular market. When we consider an application for a new branch bank, for instance, we look at all the conditions in the area, the community. We would not approve a branch that might lead to destructive competition. But you very seldom find this today.

Q What's the right number of banks for a town of, say, 10,000 people?

A Some say there shouldn't be more than one bank for 6,000 people, whether it's a branch bank or a separate bank. Others would prefer to say one bank to 10,000. It's a problem of judgment. My office faces this question all the time in considering applications for new banks.

Take the case of an application for a new bank in a small community. Say the town already has two banks, both ultraconservatively run. Now, suppose a group wanted to form a new bank—people of substantial means, with standing in business and the professions. And suppose also that the growth of the town was slow and there was little prospect of new development. We would probably have to turn that application down.

Q Isn't there some risk in turning down such an application?

A Yes, there is. When the threat of new competition disappears, so may the interest of the existing banks in providing better, more efficient service. But we take comfort in the fact that, if competition continues to lag, the new group might reactivate its request, and we'd be glad to consider it again.

Q Do State banking departments take the same things into consideration in approving new State banks?

A It's hard to give a broad answer. It depends on the State. We're talking about 50 States with a great variety of practices. Some, like California and Pennsylvania, have banking departments with good standards. Some States have relatively low standards.

Q Can any businessman, or a group of businessmen, of good character, get together and form a bank and have some chance of getting a charter?

. . . "Show me a live bank and I'll show you a live community"

A Yes, if they can establish the need. One of the most encouraging things I've seen is the type of people coming into the banking business—professional people and businessmen of substantial accomplishment. They're in their late 30s and 40s, men with good careers ahead of them.

An executive of a Philadelphia bank was in my office the other day and we were talking about the problem of managerial talent. He's a man of about 55. When he went into his bank as a young man, he was one of three college graduates in the whole outfit. They had no training program, no courses for trainees. Well, that picture has changed completely.

BANKING AS A CAREER—

Q Is banking a growth business now—a good profession for a young man to enter?

A Yes, it's an excellent one.

Q Pay scales in banks used to be unsatisfactory. Are they improving?

A Yes, though in many institutions—especially smaller banks—much remains to be done. We see in many banks today the top man still making $6,500 to $7,000 a year—with few benefits, no pension.

Q Is that a reason for bank mergers—lack of enough managerial talent?

A Yes, it is one reason. On the other hand, we're getting many more professionally competent men in banking, and the banks are realizing the necessity for bidding for the best men available.

In my office, we get the financial statements from all the national banks in the country, and we can tell how a bank treats its employes—whether it has a pension fund, a profit-sharing plan, what the level of salaries is. The kind of treatment a bank gives its employes is generally the sort of treatment it gives its customers.

Q How do depositors benefit from increased bank competition?

A The depositor is often a borrower, as well as a user of trust services, custodial services, investment services. And, in any case, the community benefits. You can't find a vibrant, growing community where there is not a live bank. And vice versa. Show me a live bank and I'll show you a live community.

Q If you rule out the big-city banks, and a few exceptional banks elsewhere, would you say banks generally are backward—behind the times?

A To use the proper term, I'd say many of them offer inadequate services.

Q Is that partly because banks are too small for today's lending needs?

A Yes, many are too small.

Q You've asked Congress to raise the lending limit—

A Yes, to 20 per cent of capital and surplus for national banks.

Q What is the limit now?

A It has been 10 per cent since 1907. Of course, the really large banks aren't hampered by this limitation. Some of them have a 65 to 75-million-dollar lending limit. They're capable of meeting most of the needs that arise.

Q Isn't there some danger in boosting lending limits?

A Yes, there's some danger, but this is the kind of danger we're capable of dealing with. I say if we have confidence in the quality of bank management we can relax the controls, give bankers new tools to work with.

On the other hand, if one doesn't feel that bank management is competent, he'd better keep the lid on, maybe pull the reins even tighter. Some people are saying, in effect, that bankers can't be entrusted with additional powers because they'd abuse them. I don't agree.

Q Do you find many cases of poor bank management?

A We have only a few problem cases. We have 21 banks around the country that we're watching on a day-to-day basis. But that's out of a total of 4,589 banks that we supervise.

Q What are some of those cases?

A We have six or seven cases where people got working control of banks who shouldn't have it. In one case, they poured in a lot of bad finance-company paper—notes from finance companies they control.

But let's look at the other side of the picture: We have a staff of a thousand bank examiners, at a cost in excess of 15 million dollars a year. They're all professionals. I'm the only presidential appointee in this office. If we can't handle the few problem cases we get, we're in a bad way indeed.

Bank management, by and large, is good. That doesn't mean you won't find a bad asset or a bad loan here and there. But that's normal. Banking is supposed to be a risk-taking business, not a risk-free business.

Q Savings and loan associations have shown a desire to get into the consumer-credit field—make small loans. What's your position on that?

A I didn't testify on that when I appeared before Congress. But I would not oppose it on competitive grounds, any more than I would oppose competition from any other financial source.

Q It would greatly broaden competition—

A Yes, it would. Now, how this would be worked out in practical terms for the savings and loan associations is another matter. We do have a serious liquidity problem in that field. Many associations are loaned up to and beyond the limit of their resources. I believe that savings and loan associations should be required to maintain a substantially higher degree of liquidity.

Q Wouldn't that put a limit on the total amount of mortgage money available?

A I'd rather see that happen than to have Government regulation of interest rates a bank or savings and loan association can pay.

Q In view of all the recent controversy swirling around you and your office, would it be out of place to ask if you've had any assurances from the White House?

A I am well satisfied with the understanding and support I have received in the Administration.

LESS OPPOSITION TO CHANGE—

Q Is resistance to some of the changes you've proposed receding now?

A I think there's been some more acceptance of what we're trying to do. After all, the great many changes we have made so rapidly over the past two years have come against a background of almost complete inactivity in the Comptroller's office for many years. Naturally there was not only concern, there was confusion in the beginning. But there is better understanding now of our purposes, and therefore stronger support.

Q Has anyone suggested you ought to move a little more slowly?

A No, not anyone in the Administration. I suppose there are some others who have felt it might be better if they could give me a tranquilizer.