

THE COMMUNITY AND ITS BANKS

By ROME C. STEPHENSON
President American Bankers Association



R. C. STEPHENSON

While upon the individual bankers there rests without qualification the direct responsibility for the prudent, honest conduct of their institutions, nevertheless the soundness of banking as a practical matter of fact is a community problem in which the public has a part to play as well as bankers and government officials charged with the supervision of banks.

In the first place, the assets of a bank, outside its government bonds, consist mainly of loans to business men and of investments in securities created by corporate enterprises. The deposits of a bank are not kept in the vaults as idle cash but are employed in these loans and investments to earn the money to pay the expenses of the bank so that it can render services to its customers and also pay them interest on such deposits as bear interest. If there were no such thing as unsound business men or enterprises there would be no such thing as unsound assets in a bank.

It is of course the unquestioned duty of the banker to choose only sound loans and investments, but the difficulty of such judgment, and human judgment is never infallible, is plainly increased in such times and under such conditions as we have been passing through, with many businesses not making expected earnings and therefore hampered in meeting their obligations. Unfortunately some investments and loans created by persons outside the banks which found their way into the banks in a relatively few instances have reflected the unwise business policies and conditions that became more than usually prevalent in our business activities and contributed to the difficulty of banking. The vast bulk of bank assets, however, are 100 per cent sound above all question.

"Hard Boiled" vs. "Easy" Banker
In another aspect the people of the community have a part to play in maintaining the soundness of their banks, and that is through the medium of patronage. The existence of a bank is dependent on public patronage. If only those banks were patronized in which the most careful policies were practiced and the most conscientious and able men in charge, it would go far toward maintaining the standards of banking. If business men in a community when refused loans by their banks for good and sufficient reasons because conditions are not favorable, thereupon withdraw their business to banks where less careful methods prevail, they clearly contribute to the creation of a less sound banking situation.

Also if, in the heat of competition, a banker offers higher interest rates or more free service to attract customers than the earnings of conservative banking justify, and is encouraged by the patronage of the public as against a more conservative bank, obviously the public is again playing a part in bringing about a less sound banking situation. It is an unfortunate fact that the banker who is strict, "hard boiled" if you please, is liable to be less popular than the "easy" banker, and by that same token the public itself has a voice in influencing the character of banking. Also it is the public in the end which pays the main part of the penalty if unfortunate results follow.

Still again the public can exert an influence in shaping the character of banking by supporting the purposes of bankers to maintain intelligent, independent, honest banking supervision.

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by the public banking departments through insisting that this function of government shall be kept as free from political influence as the judiciary itself and shall be manned only by men of the highest ability and character.

In still another way can the people themselves contribute to maintaining the ability of their banks to meet their obligations, and this is by granting them the fullest possible confidence. As I said, the deposits are not kept as cash but are invested in loans and securities. Even the soundest assets of this type require some time to reconvert at full value into cash deposits. In many cases of bank troubles the only thing wrong with a bank was an unduly suspicious and apprehensive state of mind in its customers created by no act or condition of its own but by baseless rumors which sometimes led them to destroy the value of their own deposits by demanding them immediately, forcing a bank to sacrifice its assets and otherwise disrupt its financial operations.

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